

Economic Conditions  
Governmental Finance  
United States Securities

1916

The National City Bank  
of New York



Presented to  
The Library  
of the  
University of Toronto  
by

*Professor H. R. Kemp*







Digitized by the Internet Archive  
in 2007 with funding from  
Microsoft Corporation



# Economic Conditions, Governmental Finance, United States Securities.

## INDEX 1916

	MONTH	PAGE		MONTH	PAGE
<b>ACCEPTANCES</b>			<b>ANGLO-FRENCH LOAN</b>		
Amendment on, proposed to be made to the			Call made upon depository banks		
Federal Reserve Act	Apr.	10	Proceeds of		
How amendment to Federal Reserve Act affects	Oct.	6	Sales of 5 per cent. Bonds	Feb. 3—Mar. 3—	
<b>ACWORTH, Mr. W. M.</b>			<b>APPROPRIATIONS AND REVENUES</b>		
View of the Railway situation in U. S.	July	2	For the Federal Government		
<b>ADAMSON ACT</b>			<b>ARGENTINE</b>		
Suit to obtain judicial interpretation of	Dec.	2	Exports of		
<b>AGRICULTURE</b>			Loans made by		
Bankers of many states promoting	July	6	Notes and loans of Government of		
Crops and prices	Mar. 1—Aug. 2—Sept. 1—	Oct. 1	<b>ARSENALS</b>		
Demonstration Tracts	July	5	Conditions at the		
Farm Loan Bonds	Aug.	12	<b>ATLANTA</b>		
Farm Mortgages	June	7	Candler warehouses at		
Federal Farm Loan Act	Aug.	11	Federal Reserve Bank declared divided		
Food Supplies	Nov.	1	<b>ATLANTA &amp; CHARLOTTE AIR LINE RY.</b>		
James J. Hill's efforts in behalf of	July	4	Bonds handled by syndicate of New York		
Rural Credits	Feb.	5	bankers		
Wheat Crop	Nov.	1	<b>AUSTRALIA</b>		
<b>ALIENS</b>			Imports of		
Pending tax on incomes from American se-			To mint her own silver coins		
curities owned by	Aug.	6	<b>AUTOMOBILES</b>		
<b>ALLIED MACHINERY COMPANY</b>			Growth of the industry		
Taken over by the American International			<b>BANK OF ENGLAND</b>		
Corporation	Aug.	9	Comparative figures		
<b>AMENDMENT</b>			Gold reserves of the		
Kern, to the Clayton Act	Aug.	8	Raised its discount rate		
To the Federal Reserve Act	Apr. 10—Oct.	5	Statement of		
To Postal Savings Bank Act	June	4	<b>BANK OF GERMANY, Statement of</b>		
<b>AMERICAN SECURITIES</b>			<b>BANK OF HAITI</b>		
British mobilization of	Jan. 6—Feb.	2	Directed from New York		
British policy of buying and borrowing	Aug.	2	<b>BANK OF FRANCE</b>		
British tax on	June 2—Aug.	3	Gold reserves of the		
Foreign sales of	Oct.	3	Statement of the		
Great Britain parting with	June	11	<b>BANK OF ITALY, Statement of the</b>		
Progress in British mobilization of	July	1	<b>BANK OF RUSSIA</b>		
Six omnibus loads of bonds placed at disposal			Gold reserves of the		
of British government by the Prudential In-			Statement of the		
surance Co. of London	May	5	<b>BANK RESERVES (See Federal Reserve</b>		
<b>AMERICAN BANKERS' ASSOCIATION</b>			<b>Banks)</b>		
Campaign for promotion of savings	Jan.	5	In New York		
Commission upon agriculture	July	6	<b>BANKING CONDITIONS</b>		
Efforts in behalf of Bill of Lading legislation	Sept.	10	As shown on Comptroller's call		
Monthly publication "Banker Farmer"	Jan.	5	In Europe		
Mr. Warburg's address at convention of	Nov.	4	<b>BELGIUM</b>		
<b>AMERICAN FOREIGN SECURITIES</b>			Amount of meats shipped to		
<b>COMPANY</b>			Glass industry of		
Formed to handle French loan	Aug.	3	<b>BELLIGERENT COUNTRIES</b>		
<b>AMERICAN INTERNATIONAL CORP.</b>			Public loans to		
Acquisition of the American Shipbuilding Co.	Dec.	8	<b>BETHLEHEM STEEL COMPANY</b>		
First contract of the	Aug.	9	Has taken over Pennsylvania and Maryland		
Latin-American Corporation	Aug.	9	Steel Companies		
Organizing for world work	Aug.	10	<b>BILL OF LADING LEGISLATION</b>		
Pacific Mail Steamship Co.	Aug.	9			
Selling agencies	Aug.	9			
Shipping investments	Aug.	9			
Work of the first six months	Aug.	8			
<b>AMERICAN TELEPHONE &amp; TELEGRAPH CO.</b>					
Plan for re-financing	Dec.	8			



	MONTH PAGE
<b>MARKET</b>	
ice in the United States	Jan. 7
	May 6
<b>BOND AND STOCK MARKET</b> (See each month)	
d for tax exempt	Dec. 8
loan, conditions of	Aug. 12
ment	Jan. 10—Aug. 5
al Japanese Government 4½'s	Mar. 3
for territorial	Aug. 5
ssue of Hawaiian	June 4
United States	Apr. 4
rd Air Line Railway	Dec. 8
<b>WAREHOUSES</b>	Nov. 8
<b>BANKS</b>	
abroad by the National City Bank of New York	June 6
s and imports of	June 6
H (See England and Great Britain)	
condition of	Mar. 6
and Foreign trade	Apr. 8
	June 9
al conditions	May 6
ys of American securities	Aug. 3
ation of American securities	Jan. 6—Feb. 2
of Silver	May 6
rench Treasury Bills, Statement of the Federal Reserve Board on	Dec. 3—Dec. 4
<b>GOVERNMENT</b>	
ng economy	Apr. 2
s	Apr. 1—Aug. 4
d terms of its offer to borrow American securities	June 2
ffered in the United States	Sept. 10
Exchequer bonds	Aug. 4
nt of gold by the	July 1
of Sir Thomas White, Minister of Finance of Canada	Mar. 7
<b>S AIRE</b>	
arters of the Latin-American Corp.	Aug. 10
nts of gold to	Dec. 3
<b>NG Operations</b>	Feb. 2
	Aug. 1
<b>U OF MINES</b>	
on cracking process for production ofoline	Apr. 9
<b>SS CONDITIONS</b> (See each Month)	
<b>IGN OF THRIFT</b>	
	Jan. 5
	Mar. 7
	Aug. 3
crop	Aug. 2—Nov. 1
<b>L</b>	
creasing trade with South America	Aug. 8
leral Land Banks	Feb. 7
ce of the War on supply of	May 4
redit	May 5
<b>L AND LABOR</b> (See Labor)	
country Banker's view	Feb. 4—May 3—Dec. 2
figures	Sept. 8
vw of progress	Sept. 7
vw of Economists	Sept. 7

	MONTH PAGE
<b>CATTLE PAPER</b>	
Address by Mr. Beverly D. Harris on	Mar. 5
<b>CENSUS FIGURES</b>	Sept. 7
<b>CHANCELLOR, BRITISH EXCHEQUER</b>	
British Debt as stated by	May 5
Budget submitted by the	June 9
Explanation as to mobilizing of American securities	Jan. 7
Statement of wages and workers	Jan. 2
<b>CHECK COLLECTIONS</b>	
System of, of Federal Reserve Banks	June 6
<b>CHESAPEAKE &amp; OHIO RAILWAY</b>	
Syndicate to underwrite bonds of	Apr. 4
<b>CHINA</b>	
Loan to Republic of	Dec. 7
Opportunities in	Dec. 7
Rise of silver beneficial to	June 5
<b>CLASS ANTAGONISMS</b> (See Labor)	
Evils of	Jan. 4
<b>CLAYTON ACT</b>	
Kern Amendment to the	Aug. 8
Labor organizations and the	Sept. 3
<b>COAL</b>	
Advance in freight rates of	Feb. 2
Conference between mine operators and their employees	Mar. 3
And Coke	Feb. 1
<b>COLLECTIONS</b>	
Federal Reserve system of check	June 6
Effect of the plan	June 7
Under the Income Tax	Mar. 4
<b>COMMISSIONER OF INTERNAL REVENUE</b>	
Report of the	Mar. 4
<b>CONDITION</b>	
In the warring countries	Jan. 2
Of British Banks	Mar. 6
<b>CONTINENTAL &amp; COMMERCIAL BANK OF CHICAGO</b>	
Loan to the Republic of China	Dec. 7
<b>CORN</b>	
Condition of the crop	Jan. 10—Aug. 2—Sept. 1
Shows in the Northwest campaigned by bankers	July 6
<b>COTTON</b>	
Condition of the crop	Jan. 10—Aug. 2—Sept. 2
Deterioration of the crop	Oct. 1
Exports of, and cotton goods	May 2
Goods industry	June 8—Oct. 2
Condition of the	Oct. 2
Wages and figures on the	June 8
Market	Mar. 2
Mill Machinery, Improvements in	June 8—June 9
Outlook	May 1
Storage facilities	Nov. 8
Storage warehouses	Sept. 6
<b>COUZENS, Mr. James</b>	
Article on the Ford plan	July 8
<b>CRAMPTON, Mr. R. L.</b>	
Secretary of the Illinois Bankers' Assn. Interest in developing efficiency	Jan. 5
<b>CREDIT</b>	
Balances	Dec. 3
Rural	Feb. 5
The Government's	Feb. 5
Artificially low rates of no advantage to	Feb. 5



**CROPS**

Critical stage of the	Aug. 2
Estimates of the	Oct. 1
Outlook of the	July 1
And Markets	Jan. 10
and prices	Sept. 1

**CUBA**

Branch Bank of The National City Bank of New York opened at Santiago	June 6
---	--------

**CURRENCY (See Money)****DANGERS (See Labor and Capital)**

Of Graduated taxation	Mar. 5
-----------------------	--------

**DEBENTURE SYSTEM, The**

Feb. 6

**DEVELOPING EFFICIENCY**

Jan. 5

**DEVELOPMENT OF THE NORTHWEST**

Mr. James J. Hill's efforts in the	July 5
Propaganda through banks	July 6

**DISCOUNT RATES**

Bank of England	Aug. 4
-----------------	--------

**DIVIDENDS**

Declared by Federal Reserve Banks	Aug. 8—Sept. 12
Of Farm Land Banks	Aug. 13

**ECONOMY, British Government Enforcing**

Apr. 2

**EDUCATION WANTED, Scientific**

July 7

**EFFICIENCY**

Taylor system of	July 9
Ford plan of increasing	July 9

**EIGHT HOUR DAY**

Sept. 4—Oct. 9

**ENGLAND (See Great Britain & British)**

Condition of working people in	Jan. 2
Labor conditions in	May 5
Mobilization of American securities	May 5
Production of cotton goods in	Jan. 10
Taxation in	June 9
Wages and cost of raw materials	July 7

**EUROPEAN BANKING CONDITIONS**

Jan. 2

**EUROPEAN WAR (See War)****EXCHANGE (See New York Stock Ex-  
Change)**

Rates	Apr. 4
Sales on the	Mar. 3

**EXPORTS (See Imports)**

Of Cotton	Mar. 2
Of Cotton and Cotton goods	May 1
Of Germany	Jan. 1
Of Gold	June 2
Of Silver	June 5
Of the United Kingdom	July 7
Of the United States	Jan. 1—Apr. 7
Of Wheat	Jan. 10

**EXPORTS AND IMPORTS**

Of Brazil	June 6
Of United States	June 2
Of woolen goods	May 2

**FEDERAL BUREAU, OF ANIMAL INDUSTRY**

Jan. 10

**FEDERAL FARM LOAN ACT**

Aug. 11

Agents of Federal Land Banks	Aug. 13
Doubtful features of the system	Aug. 13
Earnings and dividends	Aug. 13
Effects of special legislation	Aug. 15
Exemption from taxation	Aug. 13
Farm Loan Bonds	Aug. 12
Government depositaries	Aug. 13

Joint stock banks
Restrictions upon loans
The Organization

**FEDERAL LAND BANKS**

Agents of
No personal loans
The Pending Plan

**FEDERAL RESERVE ACT**

Amendments to, recommended
Amendments to, proposed
Amendments to, as passed by Congress
Applications to sell government bonds under Intent of, regarding checks

**FEDERAL RESERVE BANK NOTES**

Apr. 6—

**FEDERAL RESERVE BANKS**

Bonds purchased by	
Cattle Paper	
Condition of	Aug. 4—
Discount rates of (See Discount Rates)	
Dividends declared by	Aug. 8—
Increased earnings of the	
Loans and deposits of the	
Possible demands upon the	
Purchases of United States Bonds at par by	
Reserves in	
Resources and Liabilities of (See Statement)	
Surplus in	

**FEDERAL RESERVE BOARD**

Allot bonds to Federal Reserve Banks
On Foreign Treasury Bills
Report of the
Statement of, on Treasury bills of countries engaged in war

**STATEMENT OF CONDITION (See each  
Month)**

System of check collections
-----------------------------

**FEDERAL RESERVE COUNCIL**

Opinion on liquidation of member banks
--

**FEDERAL RESERVE NOTES in Member**

Bank Reserves
An unreasoning conservatism
Established policy elsewhere
Government should cease issuing gold certifi- cates
How to concentrate our gold holdings
Possible demands upon the Reserve Banks

**FEDERAL RESERVE SYSTEM**

Check collections
How effected by amendments to Act
Liquidation of the member banks
Workings of the

**FEDERAL REVENUES AND TAXATIONS****FEDERAL TRADE COMMISSION**

Report on manufacturing establishments
--

**FINANCE AND TRADE**

International
---------------

**FINANCES**

British
Conference of French and British authorities on

In the United States
----------------------

Of British Government for year ending March 31, 1916
Of Canada
Of France
Of the United States

**FINANCIAL**

Condition of Reserves of banks of Europe
--



	MONTH	PAGE
as after the War	June 11	
	Mar. 2	
<b>APPLIES</b>		
a of the	Nov. 1	
anks, amendment to Federal Reserve	Apr. 11	
proposed	June 6	
and agencies of The National City	Dec. 3	
of New York	Aug. 5	
erves of, countries	Dec. 7	
ent Bonds, Sales of	Oct. 5	
nts, Loan to Republic of China	Nov. 3	
Taxation upon	Oct. 3	
American securities	June 3	
s, Interest in	Dec. 11	
Bills, Federal Reserve Board's state-		
on	Apr. 7—July 1	
<b>TRADE</b>	Feb. 2	
of Canada	Mar. 7	
figures on	Oct. 2	
American International Corporation	Aug. 8—Aug. 9	
change	June 2—Aug. 2—Sept. 9—Dec. 2	
of	Apr. 2	
Foreign Securities Company formed	Aug. 3	
ndle French Loan	Dec. 7	
Municipal Loan	May 1	
s	Feb. 1	
n of foreign bound	Apr. 6	
es on	Jan. 10	
tes	Feb. 2	
dvances on grain and coal	Apr. 9	
<b>E</b>	Apr. 9	
process for the production of	Apr. 9	
o increase production	Jan. 9—Apr. 9	
on and consumption	Jan. 1	
<b>Y</b>	July 7	
of	Apr. 2	
development of	June 5	
German Government	Jan. 2	
a standard money metal	Jan. 9	
t of Bank of		
<b>INDUSTRY</b>		
s, Government should cease issuing	Nov. 5	
concentrate our holdings of	Nov. 5	
ons of	Sept. 9	
ons, Practice in Europe	Nov. 6	
orm Great Britain	Feb. 2	
t of	Aug. 2	
of	July 1	
of Federal Reserve Banks	Oct. 6—Nov. 5	
of foreign countries	Dec. 3	
s of	Dec. 3	
The	Dec. 3	
the country	Oct. 6	
Scandinavian countries	June 3	
x of	Nov. 3	
ented movement of	Oct. 2	
e British Empire	Apr. 1	
<b>MENT</b>		
the	Jan. 10—Aug. 5	
es, Federal Land Banks as	Feb. 5	
	Aug. 13	
	Apr. 5	
of supplies in the United Kingdom	Nov. 9	
	June 2—Oct. 4	

	MONTH	PAGE
<b>GRAIN</b>		
Advance in freight rates	Feb. 2	
Conditions of the, crops	Jan. 10	
<b>GREAT BRITAIN</b> (See England and British)		
Mobilizing American securities Jan. 6—Feb. 2—Aug. 3		
Parting with American securities	June 11	
Railway wages in	Nov. 8	
Value of imports and exports	Jan. 3	
<b>HARRIS, Mr. Beverly D.,</b> Vice-President of		
The National City Bank of New York, Address		
before the Kansas Live Stock Assn.	Mar. 5	
<b>HARRISON, Mr. M. W.,</b> Secretary of Savings		
Bank Section of American Bankers' Assn. has		
prepared literature for distribution	Jan. 5	
<b>HAWAIIAN BONDS</b>		
New issue of	June 4	
<b>HIGH COST OF LIVING</b>		
	Oct. 2	
<b>HILL, James J.</b>		
Career of	July 5	
Death of	July 4	
<b>HISTORY</b>		
Of silver as a standard money metal	June 5	
<b>HOUSE OF COMMONS</b>		
Mr. Montague's discussion on Economy in	Apr. 2	
<b>ILLINOIS BANKERS' ASSOCIATION</b>		
Interest in promotion of agriculture	Jan. 5	
<b>IMMIGRATION, Influence of</b>		
	Feb. 4	
<b>IMPORTS</b> (See Exports)		
Comparative figures of different countries	Jan. 2	
Of Gold	Nov. 3	
Of the United States	Apr. 7	
<b>INCOME TAX</b>		
Increase of	Mar. 4	
Payments into sub-treasury	Oct. 4	
Pending legislation	June 2	
Present law and pending bill	Aug. 6	
<b>INDEBTEDNESS AND TAXATION</b>		
Due to the War	June 11	
<b>INDUSTRIAL</b>		
Activity of the country at the top notch	Dec. 5	
Improvement of, conditions	Jan. 2	
Progress, the natural course of	Jan. 4	
Situation	May 2—Nov. 2	
Situation during the year 1915	Jan. 8	
Scientific education wanted	July 7	
<b>INDUSTRIES</b>		
Effects of war and war debts upon, and social		
conditions	June 10	
In America	July 8	
Sold far ahead	Dec. 2	
<b>INFLATION</b>		
What is	Apr. 3	
<b>INFLUENCE</b>		
Of Immigration	Feb. 4	
Of the War on Capital supply	May 4	
<b>INFLUX OF GOLD</b>		
	Nov. 3	
<b>INTERNATIONAL BANKING CORP.</b>		
Branches of, Abroad	June 6	
<b>INTERNATIONAL MERCANTILE MAR-</b>		
<b>INE COMPANY</b>		
Interest of American International Corpora-		
tion in the	Aug. 9	
<b>INTERNATIONAL TRADE AND FINANCE</b>		
	Jan. 6	



**INTER-STATE COMMERCE COMMISSION**

Conferences of	Apr. 6
On the Railway situation	July 1

**INVESTMENTS**

Of foreigners in the United States	Sept. 9
Opportunities in foreign fields	June 3

**IRON AND STEEL**

Industry	Jan. 9—Apr. 7
Situation	Oct. 1

**JAPAN**

Financial condition of	Mar. 3
Gaining gold	Dec. 3

**JOBS, PRODUCT AND DISTRIBUTION**

(See Labor)

Distribution inevitable	Dec. 10
Newspaper comments on	Dec. 8
The Distribution of Profits	Dec. 9
Two classes of wealth	Dec. 9

**KANSAS LIVE STOCK ASSOCIATION**

Address delivered by Mr. Bevely D. Harris before the	Mar. 5
--	--------

**KERN AMENDMENT**

To the Clayton Act	Aug. 8
--------------------	--------

**KING, Dr. Willford I.**

Discussions on wealth and income of U. S.	Sept. 8
---	---------

**LABOR CONDITIONS**

In England	May 5
------------	-------

**LABOR**

Fear of unemployment	Oct. 10
General eight hour day	Oct. 9
Organizations, Attitude of	Jan. 5
Situation	Feb. 3—May 2—July 1—Dec. 2
Demand of four orders of railway trainmen	Feb. 4
The interests of	Oct. 9
The supply of "Jobs"	Nov. 6
The sympathetic strike	Oct. 10
Troubles adjusted for the most part	June 1
Will labor co-operate after the War	Oct. 11

**LABOR AND CAPITAL PROBLEM**

A country banker's view	Sept. 8
Census figures	Sept. 7
Distribution of wealth measured by consumption rather than ownership	Sept. 5
Production and consumption must be equal	Sept. 6
The laws of progress	Sept. 7
The views of economists	Sept. 7

**LACKAWANNA VIADUCT**

Sept. 6

**LAND MORTGAGE BANKS**

Feb. 5

**LATIN-AMERICA**

Loans to countries of	Nov. 4
-----------------------	--------

**LATIN-AMERICAN CORPORATION**

Subsidiary company of the American International Corporation	Aug. 9
--	--------

**LAW OF PROGRESS, The**

May 3

**LEGISLATION**

Amendment to Federal Reserve Act	Oct. 3
To Postal Savings Bank Act	June 4
Banking	Oct. 6
Bill of Lading	Sept. 10
Effects of special	Aug. 15
Federal Farm Loan Act	Aug. 11
Kern Amendment to the Clayton Anti-trust Act	Aug. 8
Pending, on Taxes	Aug. 6

Pomerene Act  
Proposed Federal Reserve  
The New Shipping Bill  
The Railway Wage  
The Tavenner Bill  
United States Warehouse Act

**LIVE STOCK**

Cattle Tick  
Conditions as viewed by Mr. Harris, V. P.  
The National City Bank of New York  
Experts  
Industry, Mr. Hill's efforts in promoting  
Market

**LIVING, High cost of****LOAN**

A chinese  
By the United Kingdom of Great Britain and Ireland  
French Municipal  
Imperial Russian Government

**LOANS**

And Deposits of Federal Reserve Banks  
Anglo-French  
British and French Treasury Bills  
Farm Mortgage  
Made by the United States  
Made in the United States  
Of the German Government  
On farm lands  
Restrictions upon farm  
To Belligerent governments since the War  
To Foreign Governments

**LONDON**

Financial aspects of the War

**LUMBER BUSINESS****MEAT PACKERS PRICES****MEMPHIS TERMINAL CORPORATION**

Warehouses of the

**METAL**

Copper  
The Industries  
Mining industry  
Mining and smelting industry

**MEXICO**

Capital invested in,  
Crisis with  
Outlook in  
Production of Silver in  
Situation in  
Suspension of production of silver in  
War and Peace prospects in

**MIDVALE STEEL & ORDNANCE COMPANY**

Absorbed the Cambria Steel & Iron Co.  
New issue of 20-year 5 per cent. Collateral Trust Bonds

**MINING (see Metals)****MINISTER OF MUNITIONS**

Appeal for wage-earning class

**MOBILIZATION OF AMERICAN SECURITIES**

French Government has followed British policy as to  
Progress in

**MONEY**

And Banking  
And Credit



	MONTH PAGE
tor in the shifting of	Dec. 6
he Feb. 2—Mar. 2—Apr. 3—May 7	June 2—Aug. 3—Sept. 10
conditions	May 7
ues	Apr. 5
a standard metal	June 5
the Ruble	July 11
ange	Oct. 2
<b>JE'S, Mr.</b>	
s as to tax on American securities	Aug. 3
<b>AL BONDS</b>	
915	Jan. 8
<b>L BANKS</b>	
l liabilities of	Dec. 7
n of	May 8
n of member banks of Federal Re-	Apr. 10
system	Dec. 7
of three classes of, compared	
<b>L CITY BANK OF NEW YORK,</b>	
anks opened abroad by	June 6
e organization of the American Inter-	Aug. 8
Corporation	
statement from W. M. Acworth of the	July 2
ty situation in the U. S.	
Bank of Haiti with The National	Aug. 11
Company	
dent Harris' address before the Kan-	Mar. 5
ve Stock Association	
<b>ANDS BANK</b>	
of	Jan. 2
<b>EANS</b>	
ng facilities in	Nov. 8
<b>K CLEARING HOUSE BANKS</b>	
of the	Oct. 2
of the	Jan. 6—Dec. 6
serves of the	July 1
<b>K</b>	
on Land Banks	Feb. 6
r cent. Bonds	Feb. 3
<b>K STOCK EXCHANGE</b>	
s on the	Apr. 4
he Feb. 3—Mar. 2—July 11—Aug. 4—	Oct. 3—Nov. 3
ns on the	Jan. 8—June 3
<b>&amp; WESTERN RAILWAY</b>	
ion of a section of the	May 4
<b>EST</b>	
development of the	July 4
<b>UES</b>	
at proposed to Federal Reserve Act	Apr. 10
<b>IN MEXICO</b>	
	Jan. 9
<b>R GEORGE</b>	
foreign securities sold	May 5
	Mar. 5
	Apr. 5
<b>ND WAR PROSPECTS</b>	
	Apr. 1
<b>ANIA RAILROAD COMPANY</b>	
nd classification of stockholders	Sept. 3
<b>UM AND GASOLINE</b>	
	Apr. 9
<b>L</b>	
n the War	Apr. 1
<b>E BILL</b>	
of the	Sept. 10

	MONTH PAGE
<b>PORT</b>	
Facilities, Study of export trade by the Ameri-	Aug. 10
can International Corporation	Nov. 8
Of Seattle, Warehousing facilities of	
<b>POSTAL SAVINGS BANKS</b>	
Deposits in	June 4
	Aug. 5
<b>PRICES</b>	
Materials for manufacture	Nov. 2
Of everything increased	Dec. 1
The problem of high	Nov. 9
Readjustment of	June 1
Rise in prices	Nov. 1
And Materials	Apr. 8
<b>PROBLEM OF HIGH PRICES, The</b>	
A committee on prices	Nov. 9
American prices	Nov. 11
Supply and Price	Nov. 10
<b>PRODUCTION</b>	
Stimulating	Dec. 1
And Consumption must be equal	Sept. 6
<b>PROFITS</b>	
Distribution of	Dec. 9
<b>PROGRESS, The Law of</b>	
	May 3
<b>PROSPERITY</b>	
A fictitious	Jan. 3
The War and World	Jan. 3
<b>PRUDENTIAL INSURANCE CO., LONDON</b>	
Placed six omnibus loads of bonds at disposal	May 5
of the government	
<b>PUBLIC INTERESTS PARAMOUNT</b>	
	Oct. 8
<b>RAILROAD</b>	
Bonds, Advances in prices of	May 7—June 3
Comparison of prices	Jan. 7
Condition of the	Jan. 9
Congestion	May 1
Cost of multiplied authorities	July 3
Double tracks and other improvements	July 3
Earnings	Sept. 3—Dec. 9
Equipment orders of	May 2
Hopeful signs	July 3
Lackawanna Company construction work	Sept. 6
New capital requirements	July 3
New York Central sale of Treasury stock	Nov. 3
Pennsylvania Company's figures	Sept. 4
Statement of W. M. Acworth, British writer	July 2—July 3
Stocks, Prices of	July 11
Securities, Mr. Loree's estimate of	Oct. 3
Terminals	July 3
Traffic	Mar. 1—Apr. 6—Aug. 1
Wages in Great Britain	Nov. 8
<b>RAILWAY LABOR CONTROVERSY</b>	
Claims for more pay	May 4
Controversy Feb. 1—Mar. 3—May 2—July 1—	Sept. 2—Dec. 2
	Feb. 4
Demand of four orders of	Sept. 4
Eight hour day	Sept. 4
Government ownership	Oct. 7
Legislation	Oct. 7
Position of the	Aug. 1
Possibility of strike	Oct. 7
Practical features of the issue	Oct. 8
Public interests paramount	Sept. 3
Railway ownership	Oct. 8
Right to arbitration	Sept. 3
Right to strike	Oct. 8
The wage question	July 4



	MONTH PAGE
<b>RATES (See Discount Rates)</b>	
For call money	Dec. 6
Of Discount in Federal Reserve Banks	Feb. 8
<b>RATES OF EXCHANGE</b>	
In different countries	Apr. 4
In the warring countries	Jan. 3
<b>REAL ESTATE LOANS</b> by banks outside of Central Cities, Amendment to Federal Reserve Act proposed	Apr. 11
<b>REGULATION</b>	
Of Federal Reserve Board on Check Collections	June 7
<b>REPORT, FEDERAL RESERVE BOARD</b>	Mar. 7
<b>RESERVES</b>	
Federal Reserve Notes as, in Member Banks	Nov. 4
In Federal Reserve Banks	Apr. 3
Of Federal Reserve Banks	Oct. 6
<b>REVENUE BILL</b>	
New legislation	Oct. 4
<b>REVENUES</b>	
Federal, and taxations	Mar. 4
Of the British Government	Apr. 1
Of the Government	Oct. 4
<b>RISE</b>	
In Prices	Nov. 1—Dec. 1
Of Silver	May 6
<b>RUBLE</b>	
Value of	July 11
<b>RUMANIA</b>	
Entrance of, into the war	Sept. 1
<b>RURAL CREDITS</b>	Feb. 5
Details of the bill	June 8
<b>RUSSIA</b>	
Finances of	Apr. 2
Gold reserves of the bank of	Dec. 3
Imperial 6½ per cent. Government Loan	July 11
New Government Loan of	Dec. 7
Statement of the Bank of	Jan. 2
<b>SAVINGS</b>	
American Bankers' Association's campaign for the promotion of	Jan. 5
Postal Savings Banks	June 4
<b>SCANDINAVIAN BANK LEGISLATION</b>	June 3
<b>SCIENCE</b>	
Development of, of Germany and England	July 8
Scientific education wanted	July 7
<b>SEABOARD AIR LINE RAILWAY BONDS</b>	Dec. 8
<b>SECRETARY OF THE TREASURY</b>	
Statements from annual report of the	Apr. 5
To subscribe to capital of Federal Land Banks	Feb. 7
<b>SECURITIES (See Bonds and Stocks)</b>	
Mobilizing American, owned abroad	Jan. 6— Feb. 2—June 2—July 1
<b>SELLING AGENCIES</b>	
American International Corporation	Aug. 9
<b>SHERER, Mr. R. P., V.-P. of Northwestern</b> Trust Company of St. Paul	
Letter on farm Mortgages	June 7
<b>SHIPBUILDING</b>	
Conditions	Jan. 9
Industry	May 2—Dec. 8
Enlargement	Aug. 1

## SHIPPING

Bill, the new  
Investments, American International Corp.  
Pomerene Bill

## SHOE INDUSTRY

## SILVER

As a standard money metal  
In a strong position  
Price of  
Rise of  
The World's production of

## SINEWS OF WAR

## SOUTH AMERICA

Branch Banks of the National City Bank  
Conditions which led to the organization of  
work in,  
Exports to  
Shipments of gold to  
Trade with

## STATE LEGISLATION

Designed to establish debenture system

## STEAMSHIP LINES

Number which maintain sailings to and from  
New York

## STEEL

Industry  
Advances of wages in the  
Conditions of the  
Second wage advance since first of year  
Rails, orders for

## STERLING EXCHANGE

Jan. 6—Feb. 2

## STOCK (See Bonds)

Market, An active  
Condition of the  
Pennsylvania Railroad Company

## STOCKS AND BONDS

Average prices of  
Market for April

## STONE, Mr. Charles A.

President of The American International Cor

## STORAGE FACILITIES

Warehouses in different points

## SUPPLY

And Demand  
Of "Jobs"

## TAVENNER BILL, The

## TAXATION

Articles affected by British  
Dangers of graduated  
Federal Land Banks exempt from  
On Aliens  
Problems of placing  
Upon foreign investors  
And Loans of belligerent governments  
And Revenues—Federal

## TAXES

British, on American securities  
Estate  
Income  
On American securities imposed by British gov  
ernment  
Special, as proposed  
War, of Canada  
And Duties

Mar. 4

	MONTH	PAGE		MONTH	PAGE
<b>EFFICIENCY SYSTEM</b>	July	9	The Situation	Mar.	1
<b>INDUSTRY</b>	May	2	Copper Mining Industry	Mar.	1
tion in the	Feb.	3	And prices	Sept.	5
e Exports and Imports)			<b>WAR</b>		
t abroad by the American Inter-	Feb.	1	After two years of	Aug.	1
Corporation	Aug.	9	Conditions	Jan.	1
d imports of foreign	Oct.	2	In the warring countries	Jan.	2
a America	June	6	Effects of, and war debts upon industry and	June	10
<b>PLANCE</b>	Apr. 3—July 1—Aug.	2	social conditions	Sept.	1
<b>D EXCHANGE, FOREIGN</b>	June 2—Sept. 9—Dec.	2	Entrance of Rumania into the	Sept.	1
<b>D FINANCE</b>			Estimates of cost of, by the British Gov.	June	9
1	Jan.	6	Expenditures	Apr.	2
			Financial conditions after the	June	11
			French notes issued and paid off since	Apr.	3
			Increase in cost of living due to	Jan.	2
			Indebtedness and taxation	June	11
			Influence of, on Capital supply	May	4
			Influence of, upon the bond market	Jan.	7
			Its effect on the United States	Jan.	3
			Loans of the German Government	Apr.	2
			Losses	June	10
			Orders, Effect of	Sept.	1
<b>R OF THE UNITED STATES</b>			Portugal involved in the	Apr.	1
lications to sell bonds	Jan.	10	Silver situation created by the	June	5
			Sinews of	Apr.	1
			Supplies of the belligerents	Aug.	1
			Taxes of British government	Apr.	1
			Taxes of Canada	Mar.	7
			The Problem of high prices	Nov.	9
			Total loans made to belligerent governments	Nov.	4
			since the outbreak of the	Nov.	4
			Wages and efficiency after the	July	6
			Will labor co-operate after the	Oct.	11
			And Peace prospects	Apr.	1
			<b>WARBURG'S, Mr.</b>		
			Opinion on Federal Reserve Notes in Member		
			Bank Reserves	Nov.	6
			<b>WAREHOUSE</b>		
			Cotton storage	Sept.	6
			Facilities	Nov.	7
			Memphis Terminal Corporation	Nov.	7
			<b>WEALTH</b>		
			A country banker's view	Sept.	8
			And Income of the people of the U. S.	Sept.	8
			Distribution of, measured by consumption		
			rather than ownership	Sept.	5
			Two classes of	Dec.	9
			<b>WHEAT</b>		
			Condition of the crop	Aug.	2
			Crop	May 1—Sept.	2
			Canadian conditions of the	Nov.	1
			The Government's estimate of the	Nov.	1
			Large area sown	Dec.	1
			Prices in the United States	Nov.	11
			Relative cost of moving to English ports	Mar.	1
			Situation	Jan.	10
			Yield in different countries	Oct.	1
			<b>WOOLEN GOODS</b>		
			Exports and imports of	May	2
			<b>WORLD WORK</b>		
			American International Corporation organizing		
			for	Aug.	10
			<b>YEAR 1915, The</b>		
			Conditions during	Jan.	1





1916

## U. S. SECURITIES GOVERNMENT FINANCE ECONOMIC AND FINANCIAL CONDITIONS

NEW YORK, JANUARY

### The Year 1915.

**T**HE beginning of the new year is naturally an occasion for review and reflection, and must be so more than ever after the extraordinary experiences of the last twelve months.

One year ago the war had been in progress five months, and the first great loans, all of them unprecedented in amount, had been placed. Since then the scale of operations has steadily enlarged until the rate of expenditures has increased several times over. At that time the British expenditures were calculated to be at the rate of about \$2,250,000,000 per annum, while now, including aid to allies, they are running at over \$7,000,000,000 per annum, and those of the other belligerents have increased in nearly like proportions.

The growing magnitude of the operations signifies that more and more the energies of the countries involved have been given over to the conflict, while the resources of neutral countries have been drawn upon in increasing degree. On both sides the effort is being made to perfect the military organization, and the economic organization behind it, so that the last ounce of available national strength may be made effective against the enemy.

The number of men under arms and equipped for active military operations probably has not yet reached the maximum, and will not before next spring, when the supreme trial of strength is likely to come.

While the war has overshadowed all else throughout the year, it is remarkable, considering the enormous interruption of ordinary industry and trade and the vast absorption of capital, that the affairs of the world go on as well as they do. The production of food and necessary raw materials seems to have been about as large in 1915 as in other years, the world's wheat crop being perhaps the largest on record. Cotton and wool, the materials for clothing, are in ample supply outside of the countries that are cut off from foreign trade. The output of gold, which is important in view of the enormous expansion of credit, has been as large in 1915 as in any previous year. In short, although trade is interrupted and transportation is costly, there is no world scarcity of necessities. This is explained by the fact that the countries involved in the war, with the exception of Russia, are not large exporters of these commodities, and the isolated

countries are to a great extent self-sufficient. Germany had a large foreign trade. Her exports were chiefly of manufactured goods, and her imports mainly of the raw materials for her manufactures.

The most serious inconvenience that has been suffered by the cessation of Germany's exports has been for want of the dyes and chemicals for the production of which that country had such a superiority that it was almost without competitors. The exports of manufactures from Britain and France have also fallen off very much, but these, like the bulk of Germany's exports, are for the most part either goods that could be produced elsewhere or goods the purchase of which could be deferred.

There exists at any time in every country a considerable supply of goods upon which it might live for a time without production or imports. Under the pressure of unusual conditions, such stocks may last much longer than in normal times. Much of the buying of clothing ordinarily is a response to changing styles, and many purchases are to gratify taste or in conformity with conditions which are not imperative. Under the present conditions new houses are built, but are not refurnished and decorated, and various luxuries are incurred by many thousands of people who in hard times will not so indulge themselves. The same restraint is evident in business. Men do not branch out into new enterprises, but repair the old ones, or refit their establishments. They do not purchase new equipment when there is uncertainty about the future. And so it is that while Germany, Britain and France have been unable to export as many goods as usual, their foreign customers have not been wanting to buy as usual. The United States exported \$2,614,885 worth of sewing machines to South America in the month of January to September, 1913, and \$273,459 worth in the corresponding months of 1915. Evidence of the same is seen in the purchase of a sewing machine, although a great convenience, something the purchase of which may be deferred. We sent \$781,778 worth of typewriting machines to South America in the period January to September, 1913, and \$258,682 worth in the corresponding period of 1915. We sent \$5,277,222 worth of cultural implements to South America in the period of 1913 and \$2,392,527 worth in the corresponding period of 1915. Great Britain exported 40,000 tons of steel rails to Argentina in the



ember period of 1913, and 1,000 tons  
sponding period of 1915.  
wing figures show the value of all im-  
countries named for corresponding  
1913 and 1915, the data being the latest

Months	1913	1915
9	\$308,571,000	\$154,012,000
7	208,210,000	175,601,000
7	199,104,000	81,000,000
6	64,107,000	23,270,000
8	455,621,000	282,250,000
8	86,623,000	56,930,000
8	394,622,000	275,917,000
8	254,571,000	182,499,000
7	346,980,000	128,011,000
8	138,209,000	100,721,000
8	168,349,000	131,392,000

ter part of the year 1915 industrial con-  
e very much improved in several coun-  
to the demand for their products aris-  
e war. This is true of the Scandinavian  
and Holland, which have benefited largely  
ir shipping interests, and it is true of the  
es, the British colonies and Japan. The  
s of war materials to Russia have created  
balances in its favor, and it is buying in  
indebtedness in the same manner as the  
tes. The exports of Argentina in the  
months of 1915 were greater in value  
y corresponding period of her history,  
he high prices for grain, wool, hides,  
anufactured war supplies.

#### Banking Conditions.

es for the principal items of assets and  
f the leading European banks are given  
ates approximating December 1st of the  
1914 and 1913. Although they show a  
anded condition it cannot be deduced that  
e institutions are in a critical situation.  
of Germany, France and Russia are  
old holdings considerably in excess of  
ear ago, but as the additions came out of  
ion, similar increases are not to be ex-  
e future. In view of the large amount  
ich the Bank of France has shipped to  
f England during the year the gain in its  
is remarkable. The Bank of Austria-  
published no statement since the begin-  
ing war.

that the loans of the Bank of England  
reased during the year is accounted for  
ensive liquidation which has occurred in  
loans and particularly in the bills taken  
Bank from the joint stock banks im-  
after the beginning of the war. The  
easury recently authorized the statement  
otal amount of bills guaranteed by the  
had been about £200,000,000, or about  
000, of which 82 per cent. had been paid  
tors.

#### BANK OF ENGLAND.

	1915	1914	1913
.....	\$171,500,000	\$178,700,000	\$143,700,000
.....	719,000,000	829,500,000	236,950,000
.....	631,500,000	647,700,000	193,450,000
.....	255,500,000	357,200,000	183,000,000
notes	471,450,000	172,500,000	.....
e....	142,500,000	72,500,000	.....

#### BANK OF FRANCE.

	1915	1914	1913
Circulation .....	\$2,858,200,000	\$2,094,700,000	\$1,181,800,000
Deposits .....	558,000,000	479,500,000	165,500,000
Loans, etc. ....	2,074,000,000	914,500,000	507,400,000
Gold .....	975,500,000	836,700,000	704,200,000

The statement of the Bank of France was not issued be-  
tween July 29th, 1914, and January 30th, 1915. The figures  
in the 1914 column are of the latter date.

#### BANK OF GERMANY.

	1915	1914	1913
Circulation .....	\$1,499,800,000	\$1,051,300,000	\$487,950,000
Deposits .....	396,900,000	349,300,000	155,400,000
Loans, etc. ....	1,171,800,000	740,000,000	227,700,000
Treasury notes..	167,100,000	185,800,000	15,500,000
Gold .....	608,800,000	477,800,000	300,000,000

#### BANK OF RUSSIA.

	1915	1914	1913
Circulation .....	\$2,556,700,000	\$1,402,500,000	\$850,600,000
Deposits .....	773,800,000	496,000,000	541,500,000
Loans, etc. ....	2,250,000,000	508,500,000	226,000,000
Gold .....	802,500,000	750,000,000	751,900,000

#### NETHERLANDS BANK.

	1915	1914	1913
Circulation .....	\$236,900,000	\$188,900,000	\$130,900,000
Deposits .....	15,200,000	9,000,000	1,500,000
Loans, etc. ....	69,800,000	128,200,000	71,500,000
Gold .....	173,700,000	88,200,000	62,200,000

#### BANK OF ITALY.

	1915	1914	1913
Circulation .....	\$579,600,000	\$427,000,000	\$348,450,000
Deposits .....	146,700,000	95,000,000	37,200,000
Loans, etc. ....	190,400,000	240,000,000	161,700,000
Cash .....	270,400,000	246,500,000	242,650,000

#### Conditions in the Warring Countries.

The inhabitants of the zones overrun by the  
armies have suffered terrible privations, but there  
are few reports of this kind from elsewhere. The  
war itself has created employment for everybody  
who can work, and as war bonuses have been  
granted to employes in most of the organized trades,  
including all railway employes, and as there are war  
allowances by the government to the families of  
soldiers, and in many instances allowances also by  
employers whose employes have enlisted, the total  
distribution to the wage-earning class is much larger  
than usual, against which is the offset of higher  
living costs. Bernard Shaw, a socialistic critic of  
the normal order of things, claims that the working  
people of England are better off than in times of  
peace, and the Chancellor of the British Exchequer  
in reply to an inquiry recently made the following  
statement from the floor of the House of Commons:

No precise figure can be given as to the total additional  
sum received in war wages as compared with the average  
wages earned by manual workers before the war. But on  
the basis of the best statistics available it may be estimated  
that 4,500,000 work-people have obtained since the war a  
rise on average of about 3s. 6d. per week on their rates  
of wages, as distinct from their total earnings. Four and  
a half millions are, however, only about a third of the  
total working population, and, although it may fairly be  
assumed that part of the other two-thirds have had some  
advance in their rates of wages, it is not likely that such  
increases have been so great as in the well-organized trades  
and in those more or less closely connected with the supply  
of war requirements. The increase in the cost of living  
since the outbreak of the war may be estimated at about 30  
per cent. This percentage increase in cost of living has



been computed on the assumption that the same quantity, and as nearly as possible the same quality, of each commodity are being consumed now as before the war.

The government is urging upon all classes the necessity for economy in personal expenditures and justifying its insistence by pointing to the prosperity of the trades supplying goods which it declares in the present emergency must be considered luxuries. It is evident, of course, that a reduction in the consumption of luxuries would release workers engaged in those trades either for enlistment or to take the place of others in the war industries or in the production of necessities.

The ease with which goods are imported into England facilitates purchases by the people and adds to the difficulty of maintaining stable rates of exchange with other countries, while in the case of Germany importations are impracticable and exchange rates are of comparatively small importance to the government. It is within the power of the British government to put heavier taxes upon importations, and indeed to suppress them so far as it deems advisable to do so, but a large share of the British imports are necessities, which even yet are not taxed at all or with moderation.

The London *Statist* calculates that Great Britain is buying abroad at the rate of about \$5,000,000,000 per annum, and selling abroad at the rate of about \$2,000,000,000 per annum, the cost of its importations being largely increased by the prevailing high prices.

In view of the general tendency in England for wage-earners to ask for higher pay, and for employers to use these requests as the basis for higher prices, a joint conference was held early this month, participated in by the Prime Minister, Chancellor of the Exchequer, President of the Board of Trade, and a large body of delegates representing the labor unions. They made an urgent appeal to the delegates to interpose their influence to check the presentation of demands for higher wages, and the delegates responded by adopting the following resolution:

"That, having heard the very important statements presented to the conference by the Prime Minister, the Chancellor of the Exchequer, and the President of the Board of Trade, we hereby resolve to arrange for an adequate number of copies of the official report of their speeches to be supplied to the members of all trade unions, and to commend to their earnest and favorable consideration the appeals contained therein."

### A Fictitious Prosperity.

It is evident that there must be something fictitious in a prosperity which arises from vast expenditures which have no permanent economic value, and which come in part from a saved-up fund which may be eventually exhausted. A spendthrift is not enjoying real prosperity while he is dissipating his inheritance. We know that the countries engaged in the war have all sold large amounts of American securities and are poorer in capital by having done so. Some of them have borrowed extensively in this country and are the poorer for these obligations. Moreover, heavy losses may be suffered within the belligerent countries, without

buying or selling abroad. There is an exhaustion of merchandise stocks, unless they are replenished, and there is a wearing out, deterioration and obsolescence of equipment, structures and every kind of property, unless repairs and replacements are made. Moreover, if the savers of capital and the owners of property, who are the leaders and organizers of industry, pledge their credit for the support of the governments, and later have to pay most of the taxes entailed by the war, the effect will be the same as the cancellation of a large part of the advances, and will leave them with less capital for conducting industry and for the advancement of industry than they had before. Therefore the progress of the world will be slower, not only during the war but after the war, because of the dissipation of capital to unproductive uses and the postponement of anticipated income for years ahead. The greatest loss by the war undoubtedly is in this connection, a loss upon normal progress, rather than in a retrograde movement from the position occupied by the world when the war began.

The world has been moving ahead under increasing and increasing momentum in recent years, owing in part to the more general diffusion of education and knowledge among the people and the consequent gains in efficiency, and in part to the rapid accumulation of capital enabling new ideas in industry and methods to be put promptly into use. The world has seen in an enormous increase in the productive capacity of the industries and in the volume of products distributed. The economic losses of the war are chiefly in the halt which has been imposed upon this development, and in the loss of pace which must be felt after the war is over, unless, however, there comes from the war itself a mental stimulation or a change of methods which will increase production. It is always a mistake to think of the productive capacity of a people as fixed and the same from one time to another, and nobody can foresee how rapidly it may increase after peace is restored, particularly if peace should be accompanied by promises to be a permanent good understanding.

Allowing for possibilities of this kind, and assuming everywhere after war will have to come down to the normal basis, where goods are produced for sale on the market and wages necessarily bear a relation to the selling value of the goods.

### The War and World Prosperity.

The war has effected a revival of industry in the United States, and general opinion in the world holds that this country will occupy a much stronger position relatively in international trade and finance hereafter. Certainly it will have bought back a large share of the securities representing American properties that have been held abroad, and the balance of payments on account of interest and dividends will be in our favor. But what this signifies a gain over what our position would have been without the war is a different question. We have prospered in the past by using force of capital and thought there was advantage in holding it rather than in returning it. Had we reached



noted in the natural order this would not be true? Even if we had, and if interest had found a permanent level in this country as in England and France, there would not, under normal conditions, have been such a whole-worm of our securities. Our accumulations of capital would have gone into new undertakings at home or abroad. Instead of making other materials of warfare during the war, we would have made structural steel and other products of industry, and while the immediate output might have been less, nobody can doubt that the world's producing capacity of the world would be greater in the latter case; and since the value of consumable wealth is always liquid, it can be questioned that in the long run the people of this country as well as other countries would have been better off.

One of the common grievances against the labor movement is that they persistently endeavor to increase the output, acting upon the mistaken idea that there is only a limited amount of work to be done and that it is good policy for them to make as much money as possible and pay as much in wages as possible. The theory that we will do better in trade with Britain and Germany out of the competition is upon a similar error—upon the supposition that there is only a limited amount of work to be done in the world, and only a limited amount of wealth to be had; whereas there is practically no limit to the amount of work to be done, or to the amount of wealth that may be created.

One of the last analysis consists of an exchange of commodities, and the greater a country's purchasing power will be, the greater its purchasing power will be. That Britain and Germany have helped to increase the trade they have enjoyed by lending capital to the countries having undeveloped natural resources, by which the latter were able to increase the production of things the world wanted. They have done it in the United States and have done it in America and elsewhere, and if they are unable to supply capital in like manner in the future, their export will be checked and all trade will be in consequence.

The United States has an opportunity to introduce its goods into new markets, but those markets will not take goods as in the past unless they are supplied with capital from outside. In other words, the United States must take the place of Great Britain and Germany in foreign trade, we must do their work, and we must have the problem of doing it and taking care of our own securities at the same time.

#### Output Must be Increased.

The United States is to make any real gains under these conditions, or escape its share of the losses, it must be done by using its producers and resources with a new and extra-high degree of co-ordination and efficiency. The waste and lost motion in the industrial organization must be reduced to the minimum, and the conservation of saving, of capital accumulation and of efficient methods, must be more highly appre-

ciated. If the waste of effort and of capital in war involves loss to all classes, so gains in efficiency and in capital mean benefits to all classes.

There is a great and increasing interest in social problems, and everybody is concerned that the conditions under which all of the people work and live shall show constant improvement. This is the end and object of industrial progress. But a great many well-meaning and even intelligent and highly educated people do not seem to understand that this upward movement is most effectually promoted by increasing the sum total of production. Substantial gains in the position of either wage-earners or employers are not made at the expense of each other, but by reducing profits or wages, but by increasing the output, which is always possible and constantly being done. It has been by this means that wages in the steel industry have been advanced and profits in the aggregate increased, simultaneously, while at the same time steel products have been reduced in price to the public and the consumption of steel in the service of the community enormously increased. The same development has been going on all around the circle of the industries, showing that it is the natural course of industrial progress.

The enlargement of production comes about in two ways, viz.: By the increasing intelligence and skill of the whole body of workers and the improved methods which they devise, and by the use of accumulated capital in machinery and all the organized facilities of production and distribution. There is no uniform rate of profits for capital, and no mere attack upon profits can be a practical method of helping the wage-earners. Profits range in every line of business from a minus quantity upward to the new records made in the automobile business, but the fact commonly overlooked is that, whatever they amount to, over and above what are consumed by the proprietor and his dependents, they are turned back into industry, and devoted to increasing production, which is a social purpose. It is evident that many people are accustomed to think of large fortunes as devoted wholly to the comfort and pleasure of the owners, but this is a misconception, and one which works a vast amount of mischief. The surplus incomes which make up the growing fortunes all exist in machinery, structures, equipment and other forms of capital employed in making goods plentiful for the consuming millions. The socialists themselves could not devote surplus incomes more completely to public service, and, if they had their way, probably would apply them much less effectively.

#### Evil of Class Antagonisms.

It shows how firmly established has been the policy of restriction, that even after more than a year of a war which is taxing Great Britain's resources to the utmost, the Minister of Munitions, a man whose sympathy for the wage-earning class has been demonstrated by activities in their behalf throughout his public career, has been compelled to make a public appeal for a further relaxation of rules in order that unskilled labor may be utilized



and the output of war supplies increased. There is here no question of unemployment among members of the organizations, or of employers' profits, nothing but stubborn maintenance of rules which undoubtedly are an embarrassment to production at all times. Of course the blame for unreasonable restrictions does not all belong to the labor organizations. The rigid attitude which they hold has been fixed by the long struggle with employers, and in that struggle the labor organizations have not always been in the "wrong." They now feel that they are entrenched and established by custom and agreements in a certain position and that they risk a great deal in abandoning it. They do not admit a lack of patriotism, but fear that advantage may be taken of their patriotism if they show it in such concessions.

No matter how mistaken their views may be, or how much they stand in their own light, their attitude and state of mind present a very real and serious problem. There is no remedy for a state of mind except in such a presentation of the facts as will change it. Great Britain is weakened and imperilled in this crisis by these class antagonisms, and in every other country they are a drag upon progress. There is a common interest in overcoming them and bringing about a better understanding. The end of the year announcements of wage-bonuses and benefits of various kinds, more numerous each year, encourage the belief that the leaders of industry in this country are alive to the importance of winning the confidence and hearty co-operation of their wage-earning partners.

#### Developing Efficiency.

The entire community is interested in developing to the fullest degree the capabilities of every individual, and the possibilities of thus increasing production and wealth, and thereby increasing trade, enlarging the distribution of comforts and raising the standard of living, are evidently enormous. It is a habit of mind to think of the things with which we are familiar as fixed and certain. The workman thinks of the amount of work to be done as a certain quantity, the employer thinks of an average day's work as yielding a given product, and the whole community thinks of each individual's earnings as something that concerns nobody but himself, while the fact is that all of these quantities must be constantly changing if progress is made, and everybody is interested in promoting such changes.

In the same sense that the countries of South America must be large producers in order to be large purchasers, our own people individually must be large producers in order to be large consumers: and in the same sense that it will pay to develop the capabilities of South America it will pay to develop the capabilities of our own people. There doubtless are greater trade possibilities at home than abroad, but neither field need be neglected for the other.

There are many significant signs that indicate a growing appreciation of the common interest in enlarged production. The increasing cost of food and

other agricultural products in recent years, offset as it has in large degree the progress made in lines of industry, has prompted widespread effort to develop more scientific methods in agriculture. Railroad companies led in this work, but manufacturers of farm implements, bankers and others followed zealously. The American Bankers' Association, through its committee headed by Mr. J. Harris, of the First National Bank of Chicago, Illinois, has been publishing an excellent monthly "Banker-Farmer," which is given wide circulation through the members of the Association. The Illinois Bankers' Association has been giving up meetings and practically all of the energies of the organization, through its efficient secretary, Mr. L. Crampton, to the promotion of agriculture, this month will hold a several days' conference at Chicago, upon the subject of "Community Development." Other bankers' associations are doing similar work, and under the stimulus of these efforts individual bankers in their local communities are personally giving aid in the purchase of high stock, the employment of competent county agents or advisors, the circulation of instructive literature and by other means.

The good of all this is apparent. If the farmer can be made more productive, and the process of delivery from producer to consumer can be simplified, the benefits will reach everybody, and similar benefits are to be had from increased production and improved organization in all other fields.

#### A Thrift Campaign.

The American Bankers' Association has now inaugurated a country-wide campaign for the promotion of savings, and invites the co-operation of bankers, business men, school authorities and the public generally, in making it as influential as possible. In December, 1916, will occur the 100th anniversary of the founding of the first savings bank in the United States, and the results of this campaign will be made known at that time. The Association, through the Secretary of its Savings Department, Mr. M. W. Harrison, has prepared an assortment of literature, blanks, circulars of instruction, etc., but of course it must have interlocal help in every community to make its plan effective. The local bankers are the natural leaders in the movement, for they have the assurance only that they will be promoting a good purpose, course, but that the results will directly compensate them for their efforts. Movements of this kind have an unusual dignity and effectiveness when carried on by a nation-wide organization for a public purpose, and afford a special opportunity for every well-disposed person to give help.

A campaign for savings is deserving of support at any time, but now more than ever it should appeal to public favor. An especial effort will be made to enlist the co-operation of the parents, schools, and teach the children the principles and habits of thrift. The campaign will be ably and enthusiastically led and if proper co-operation is given there will be results worth while.



past year has been a phenomenal one in the international exchanges, witnessing a swing from an position to a favorable one that is without parallel. The month of December, 1914, with a balance on merchandise account of \$131,- showed the trend of the development to put even then the holdings of American securities in Great Britain and Europe bulked large in the minds of our people; it seemed to be inevitable that they would come out, that their sale in this country would take up our surplus capital to such an extent that little would be left for home enterprise and that unemployment and poor trade would result.

Two compilations of foreign holdings of American railway securities which have been made by the Delaware & Hudson Railway Company, show that, in fact, sales have been very large, aggregating \$480,000,000 par value of railway stocks and bonds in the six months ending July 31st.

For industrial issues, municipal bonds, and every variety of investments, this rate of transference would indicate an aggregate in the year of \$2,000,000,000 par value, although we find it difficult to believe, in view of the known borrowings of our people in this market and the importations of securities at our purchases of securities can have exceeded, if they have reached, \$1,000,000,000 cash value.

In the eleven months to the end of November 1914 in favor of this country on merchandise account was \$1,576,073,000, and reckoning the balance for December as a little above that in November 1914 for the year will come to about \$1,750,-

But this, however, must be counted the income items of the international account, which are not for insurance on imports, dividends and interest on travelers' expenditures and personal gifts. Our expenditures have been light, and possibly our similar expenditures in this country; the balance items can hardly be less than \$200,000,000, deducting this sum would leave a net balance in favor of \$1,550,000,000.

On the other hand foreign loans in this country have aggregated about \$1,000,000,000, and net gold exports something over \$400,000,000. If to these \$1,000,000,000 of securities taken back the balance against us are \$2,400,000,000.

In connection it is to be considered that large payments have been made upon contracts, and that the loans that have been made, nearly all of which were for purchases in this country, are of an important extent unexpended. But for the delay in the ships and consequent congestion of freight ports our exports would have been much larger and these delayed shipments are covered by waiting disbursement.

It also remains to be accounted for a very important sum, in the aggregate, of bank deposits, and outgoing transfers to this country from all parts of the globe, for safe-keeping and for

business purposes. The position of New York, outside the area of war, the stability of New York exchange upon a gold basis, and its availability for payments anywhere, have attracted these funds.

The year closed with sterling exchange close to \$4.75, the highest point reached since early in the year, a situation due to the loans made here for British account, and the prospect of further and ample credits to be supplied by the mobilization of American securities in the hands of the British Government.

On the basis of present charges for insurance and other items entering into the cost of moving gold, the point at which importations can be profitably made is calculated at about \$4.765. It may be assumed that this is the mark toward which exchange operations are tending.

### Banking Conditions.

Banking funds have been in abundant supply all of the year, with rates at the bottom in the latter part. Notwithstanding the revival of trade there has been as yet but slight increase in the supply of commercial paper, and practically no withdrawal of funds from the centers.

The principal items of the New York Clearing House statement for the weeks ending December 26, 1914, and December 18, 1915, are as follows:

	Dec. 18, 1915	Dec. 26, 1914
Deposits .....	\$3,387,880,000	\$2,074,023,000
Loans, etc. ....	3,176,823,000	2,179,530,000
Total reserve .....	723,428,000	463,228,000
Surplus reserve .....	163,767,250	121,874,000

The surplus reserve reached \$196,496,000 on June 19th, at which time the loans stood at \$2,473,-578,000. After falling off slightly they rose to the highest figures of the year \$217,000,000, for the week ended September 18th, when loans stood at \$2,734,379,000, and the actual reserve was \$693,-000,000. Since then the surplus has been diminishing as the loans increased and for the last week of the year the average surplus was \$143,599,980, and the actual reserve was down to \$712,099,000.

It is evident that the purchase of our returning securities and the placing of foreign loans in this market are chiefly responsible for the increasing loans. The high balance of trade supplies the exchange by which payments are made abroad, but the people who supply the exports are not the same people who buy the securities or take the loans. The former must have their pay for distribution among their employees and for materials; the latter must be taken by investors through their savings or by means of loans. The process of exchanging goods for securities, therefore, means a conversion of liquid into fixed capital, and should not be allowed to go too far.

### Mobilizing American Securities.

The arrangements contemplated by the British government for mobilizing American securities owned in Great Britain, for the purpose of creating further credits in the United States have been announced and will soon be in effect. Briefly stated, they provide that the government will either buy



American securities outright, at New York quotations from day to day, making payment in five per cent five-year Exchequer Bonds at par, or it will borrow them for use as collateral to Treasury loans. In the latter case the owner will continue to receive all interest or dividend payments, and will also receive a bonus from the Treasury of one-half per cent on the face value of the stocks or bonds. The government reserves, however, in this agreement, the right to sell these borrowed securities if it is found necessary to do so, in which event it will buy them of the depositor, adding 2½ per cent to the mean of the high and low quotations of the New York stock exchange.

This reservation is explained by the Chancellor of the Exchequer as necessary to enable the government to pledge the securities. Evidently it could not pledge them without having the right to dispose of them finally, but the Chancellor expressed the opinion that the reservation would never be availed of.

The Treasury is to undertake at the request of the depositor at any time during the currency of the loan to sell the securities on his behalf in New York and pay over to him the proceeds in sterling at the exchange of the day, without deduction for brokerage or commission, or, if the depositor prefers it, to allow him to make his own arrangements for sale on condition that the proceeds are remitted to the United Kingdom through the Treasury Agents in New York.

At the end of the two years from the date of the deposit the remaining securities will be returned to the depositor in exchange for the Treasury certificates. Arrangements will be made for dealing on the Stock Exchange in Treasury certificates of deposit, and to set up a Treasury register for transferring the deposited securities from one holder to another.

In presenting the plan to the House of Commons the Chancellor of the Exchequer referred to the immense purchases which it was necessary for Great Britain on behalf of herself and allies to make in the United States. These created an adverse balance of trade for the time being which it was necessary to meet, either by raising loans in this country or selling securities. It was known that there were in Great Britain a large amount of American and Canadian securities. The amount was unknown but estimated all the way from £300,000,000 to £800,000,000 (\$1,500,000,000 to \$4,000,000,000). He said that if these securities were sold in the ordinary course of business the desired result in maintaining exchange rates would be secured, but that unless some general movement to mobilize them was organized the full advantage probably would not be obtained from them. He said:

"The Government wanted to get these securities, as far as possible, into one hand so that they might be controlled and used for the purpose of paying our debts in the United States. They believed that these securities would afford us a very great resource which would be fully sufficient to meet our liabilities, and therefore to maintain a good level of exchange with the United States for a period which he trusted would be at least as long as the war would last.

"The Government recognized to the full that it was as much our interest as it was the interest of the United States

that nothing should be done which would harm the market or injure their financial business, and the Government would certainly exercise every power in its hands to prevent anything which would do nothing was done to embarrass the financial interests of the United States."

### Bond Market in 1915.

The influence of the war upon the bond market has been one of the most interesting studies of the past year.

When the bond section of the New York Exchange timorously resumed trading at the close of November, 1914, it was the almost unanimous opinion of investment bankers that the general level of interest rates must necessarily be upwards, the price of fixed interest bearing securities necessarily downward for a period of several years. That was the logical thing to expect, and it is what actually occurred in other security markets during 1914. The revival of confidence, growing industrial activity and easy monetary conditions, expected by the United States have made a different situation here. This country has absorbed the European offerings and also very considerable domestic offerings on a scale of advancing prices.

Of course the most important transactions of the past year have occurred outside of the New York Exchange, but the figures of bond transactions there furnish a very convenient and fairly reliable index of investment conditions. It is therefore interesting to note that the total bond transactions on the New York Stock Exchange for the year amount to about \$955,000,000, a figure which has been exceeded in only five years in the last century. The average price of ten representative high grade long term railroad bonds stood at 87.85 on November 30, 1914, while the average price of the ten bonds on December 28, 1915, was 93.6. The *New York Times'* average of 40 bonds showed a figure of 81.53 at the beginning of January, 1916, as against 86.41 on December 29, 1915.

For several years prior to 1915 a number of the largest railroads and corporations of the country had found themselves virtually forced into financing by issues of short term notes, because of the limited demand by investors for long term securities. The volume of these short term notes outstanding was felt to constitute a serious menace to the general situation. It is a most noteworthy feature of the year that a number of these notes have been taken care of by permanent financing.

There is no more interesting comment upon the improvement in the market during the year than the comparison between the New York Central financing, undertaken in the first half of 1915, and the Erie Railroad financing, announced at the close of the year. The New York Central financing, which is regarded by many as one of the finest transportation properties in the country, which has earned large amounts in excess of fixed charges over a period of years, found itself forced, in order to take care of its large amount of short term indebtedness, to offer to its stockholders 6% Convertible Debentures at par, and the Erie debentures sold on the market in April, 1915,



At the close of the year the Erie Railroad (converting a new series of its Convertible 4% into stock at 50) to its stock at 85, to yield less than 4%, and these already quoted in the open market, on a cash basis, at a premium of about 2½

on to the New York Central and Erie and the Seaboard Air Line Railway, the Baltimore & Ohio Railroad, the Delaware & Hudson Railroad, the Pennsylvania Railroad, and the Atchafalaya and Santa Fe Railroad have provided amounts of obligations, which have either matured during the year, or are to mature in the very near future. Two railroads, the Missouri Pacific and the Missouri, Kansas & Texas, carried down into receivership during the year, on account of inability to refund maturing note

on to the loans which we have made to Belgium, France, Italy, Argentina, Russia, Norway, Sweden, Switzerland and Canada. The purchase of foreign holdings of securities in the American markets, several acquisitions have taken place involving the New York Central and Erie Railroad of particular bond issues abroad some years ago and payable in foreign currency. These transactions have been possible to the railroads entirely because of the fact that practically all foreign currencies are convertible into the United States dollar. Thus, the Erie Railroad Company has sold 4½% Gold Loan Bonds due June 15, 1921, to take up its Paris issue of 10,000,000 francs, maturing on the same date. The Chicago, Milwaukee & St. Paul is about to refund its Paris issue of 250,000,000 francs due 1925, with a similar issue of bonds payable in United States dollars. The Missouri Pacific Company is also planning to refund its Central Pacific Collateral 4% Paris issue.

Our Municipal bonds report that they have had their best year in 1915 that they have enjoyed in many years. Any increase in the income tax exemption limit is of course bound to increase still further the popularity of municipal bonds with investors.

The month of December will show transactions to the amount of \$120,000,000 in bonds on the New York Stock Exchange, making the closing month of the year the only one to November in total activity. The average price of 40 bonds, compiled by the *Times*, has decreased slightly during the year, ending at 86.41 on December 29th as against 87.11 on November 30th. The most active bonds during the month were the Anglo-French bonds with transactions of about \$23,000,000. The greater part of the activity in this issue was after the closing of the Syndicate on December 15th, and it seems entirely reasonable to expect for the month from December 15th, to January 15, 1916, the volume of transactions in this issue will exceed the greatest monthly volume in any single bond issue ever dealt in on the New York Stock Exchange. The next most

active issues were the International Mercantile Marine 4½'s (\$8,833,000), New York Central Convertible 6's (\$5,119,000), and Interborough Rapid Transit 5's (\$3,206,000).

The year closes with the bond market in a most healthy and satisfactory condition. The general opinion among investment dealers is that we will have a continuation of good times in the bond market during 1916 and that the January demand should be unusually heavy this year.

### Anglo-French Loan.

With the dissolution of the underwriting syndicate the Anglo-French bonds have had a free market, and without artificial support declined several points below the issue price, with some recovery from the lowest price. No particular significance attaches to the decline, which is not surprising under the circumstances. The issue was the largest ever placed at one time in this country and it was offered under unusual conditions. Moreover, it is the largest loan ever absorbed or offered at one time in any foreign market. Many subscriptions were made by bankers and other business men upon the understanding that the exchange situation between New York and London must be supported, in order that our foreign trade might go on and that the revival of industry in this country might not be checked. This end having been accomplished some of these subscribers having other and more active uses for their funds have chosen to realize on their holdings even at a small sacrifice. A good natural market has developed, but it may be that buying has been to some extent restricted by current talk that other loans would be offered, and possibly upon better terms. The latter supposition is improbable, although there is a recognized possibility that other loans may be offered with collateral security. Such an issue would in no way impair the value of this loan, which as a joint and external obligation of the two governments occupies an exceptional position.

It is a well-known fact that American bankers from the inception of the negotiations advised a collateral loan, not because they considered collateral necessary to secure payment, but because they were satisfied that under the conditions existing it would make the loan go better and enable more money to be raised.

British financial writers now recognize that the terms of the loan, which were criticised at the time, were not more favorable to lenders than necessary to make the loan a success in this market.

### The Industrial Situation.

The industrial situation has undergone a complete change during the year. The war itself, in the first place, laid paralysis upon industry and credit. Nobody would assume ability to foresee the effects of such an unprecedented convulsion in the business world. But gradually, as it became certain that Europe would buy enormously in this market, and that our bank reserves would be strengthened by heavy importations of gold, confidence was regained. The purchases of foodstuffs and army sup-



plies gave the initial impulse, but as these increased in proportions, and the effect spread to collateral industries the natural buoyancy and hopeful spirit of the country was revived. In the last quarter of the year all lines of industry have been working practically to capacity.

The most important industries, reckoning by the number of people who get their livelihood from them, are agriculture, mining, including the production of mineral oil, transportation, the building trades, the manufacture of construction materials, such as steel, iron and lumber, and the manufacture of clothing and clothing materials, including textiles and shoes. At the close of the year these are all busy. The iron and steel industry is sold up into the last half of the coming year, and planning extensive additions to capacity. Large constructive enterprises have not been entered upon in many instances, and the condition of the iron and steel market does not encourage them at present, but building operations in the cities and in the prosperous farming districts are back to the making of new high records. The building permits in cities for the month of November made a higher aggregate than ever before for that month.

The railway managers have much reason to be cheerful over the year's developments. The prosperity of the country has brought them a large increase in traffic, which they have so far been able to handle with a comparative light increase of expenses, and the result is a gratifying improvement in net earnings. The large expenditures which the roads for years have been making for the purpose of reducing the cost of handling traffic are doubtless a factor in these net earnings, but the situation of the roads was made so precarious by the decline of traffic in the late months of 1914 that they resorted to every possible economy, and the sudden rise of income compares with an exceptionally low level of expenses. For the month of October companies operating 248,000 miles of road show gross earnings of \$311,179,375, against earnings of \$274,091,434, for 244,917 miles of road in the same months of last year. The gain in gross earnings was 13.57 per cent. and in net over 33 per cent. It must be borne in mind that this comparison is with a month of very poor business last year, and that it will be impossible to hold expenses down to the present level. Nevertheless, the situation is more hopeful for the railways than it has been for some time. The amount of new mileage constructed during the year is the smallest since 1864.

The metal mining and smelting industry has never known such a state of prosperity, extending to every district and camp producing silver, copper, lead and zinc. The same is true of oil which has advanced rapidly in value since August last, with consumption growing and stocks diminishing. Gasoline production and consumption have grown to enormous proportions, partly as a result of the demand created by the war, but principally on account of the growing use of automobiles, gasoline engines for various purposes, and tractors for agricultural work.

The lumber business has been rapidly improving

since September last. In the southwestern field enlarged demand has occasioned an advance in Southern pine from about \$12 to \$16.00 per cord, and brought the mills generally into full production on the single turn. The glass industry in another branch of the building material trade is prosperous. The glass industry of Belgium has stood still, with the results that importations into this country have almost ceased, and our manufacturers are doing more export business than before.

The shipbuilding plants are all tied up with contracts which will occupy their capacity for the next two years. An enlargement of capacity might be possible, so far as additions to equipment are concerned, but it is reported that skilled mechanics are not to be had.

Labor is now fully employed, and doubtless the highest average wages ever known. Although the number of foreign reservists returning to their native lands has been offset by immigrants, the gain of population by immigration has been below other years and for the fiscal year ended June 30, 1915, was but 50,000 against 765,000 in the year 1914. There can be no great expansion of industry beyond the present rate of production without more workers to man the machinery.

Although the war business is a large factor in the present state of activity, it is smaller relatively than six months ago, and conditions in this country are now favorable to a much larger volume of domestic business than at present can be handled. A feeling exists also as to the prospects for foreign business after the war is over, not only in this country now neutral, but in some of the countries now at war. It is recognized that both at home and abroad the permanence of this prosperity must ultimately depend upon our ability to keep costs down to about the level upon which the rest of the world will do business. If we are able to do this it is certain that our industries can be fully employed.

### Outlook in Mexico.

The successes of the Carranza government have revived the hope that order may be re-established in Mexico. If this is realized the numerous American interests in that country will again become profitable, and a large amount of equipment and material will be wanted for the rehabilitation of the railways and other properties that have been wrecked during the five years of strife. Obviously the credit of Mexico has suffered quite as much as its physical properties, and even after peace is restored and side investors, before placing more capital in the country, will be interested to know what policy the government proposes to adopt in regard to indemnities for property commandeered by various contending authorities or destroyed by marauders for want of governmental protection. The government of the United States has patiently waited for the Mexican situation to clear itself, and a responsible government emerge from the darkness. When this has occurred and the situation is brought under control, if reparation is made for the



been suffered, confidence in the country large degree restored. On the other hand, satisfaction is obtained for past injuries, it may be a good many years before capital to Mexico as freely as it did before the war began. Mexico is very rich in natural resources and so easily accessible from the United States that its progress would be rapid if security of investments could be assured.

#### and Markets.

General conclusions of expert opinion upon the crop do not sustain the high estimates made by the Department of Agriculture. This is particularly of the corn crop, which is now agreed to be very disappointing. The Government in its latest report places the total production at 2,000,000 bushels, but in a supplemental report from Minnesota, the Dakotas and Wisconsin, estimates the yield in those states at 180,000,000 bushels to husk, out of an estimated crop of 200,000,000 bushels. This reduction alone would reduce the total crop to 2,733,400,000, but the entire corn belt suffered likewise. Most observers believe the yield of merchantable corn for 1915 is below that of 1913, which was 2,000,000 bushels, and the lowest for a dozen years. Results from feeding it are reported as disappointing, and the western live stock markets are showing record-breaking receipts of cattle and many of them turned out of the feed lots in poor condition. This is premature marketing and no good to the consumer later.

The wheat situation on this crop has been a real one. The government has estimated the wheat yield above 1,000,000,000 bushels, but in the case of corn, the trade is convinced that no allowance must be made on account of damage to winter wheat before the crop is harvested. The outturn from the spring planting is very large but from the winter wheat disappointing expectations. Foreign purchases have been made, but more skillfully made than last year, while the market has felt the influence of the government buying the source has been unknown. Regarding that exports early in the season were well below last year's, the total exports, of wheat flour, from the United States and Canada in twenty-five weeks are reported by Bradstreet at 194,791,035 bushels, against 189,365,856 bushels in the corresponding period of 1914. Of course, Canada has supplied much the larger share of grain going out chiefly through this country. Bulls have been having it about all their heads of late, and at the close of the year prices were up on a level with the end of 1914. The wheat acreage for the coming crop is estimated by the Government at 11 per cent. below that of 1914, which is one element of strength.

The annual report of the Federal Bureau of Investigation states that in addition to stamping out foot and mouth disease, about one-third of the cattle in the South formerly quarantined on account of the cattle tick has been freed of that pest.

The work of eradication is being pushed in conjunction with the state authorities, and the report acknowledges effective co-operation from transportation companies, commercial clubs, bankers and other business men "who were far-sighted enough to realize that the eradication of the cattle tick and subsequent development of the live stock industry meant an increase of business for all interests concerned."

The cotton crop is finally estimated by the Government at 11,200,000 bales. Ocean freight rates are very high, so that there is now a difference of about three cents per pound between New York and Liverpool. The production of cotton goods in England is below normal, owing to labor shortage, and of course the curtailment is very much greater on the continent. The export movement is accordingly far below normal. The American and Canadian mills are taking more than usual, but not enough more to anywhere near balance the European reduction. The range of estimates for the consumption of American cotton is from 12,500,000 to 15,000,000 bales. Europe is very low in stocks of cotton and if the war should end prices would probably advance rapidly. The probable acreage of the next crop is becoming a prominent factor in the market calculations.

#### Government Bonds.

Attention is called to the fact that on and after December 23, 1915, national banks may submit applications to sell their bonds under circulation account at par in accordance with the provisions of the Federal Reserve Act. The application should be addressed to the Honorable Treasurer of the United States and should be accompanied by certified copy of resolution of the Board of Directors of the bank authorizing the withdrawal of the bonds, together with Treasurer's receipt covering them.

The necessary forms will be mailed direct from the Treasury Department at Washington, D. C., upon request. On March 31, 1916, and at the end of each quarterly period thereafter, the Treasurer of the United States will transmit to the Federal Reserve Board and to the Controller of Currency lists of all such applications that have been received at least ten days before such date.

The Federal Reserve Board will advise the Treasurer of the United States and the Comptroller of the Currency of the bonds allotted to each Federal Reserve bank. Upon receipt of notice of such allotments, the Treasurer of the United States will call upon the Federal Reserve bank or banks required to purchase the bonds to deposit lawful money of the United States with the Treasurer of the United States, or an Assistant Treasurer, for the par value and accrued interest of the bonds in question. Accrued interest will be computed to include the date on which lawful money covering the purchase price is deposited. Upon receipt of any such deposits the Treasurer of the United States will assign the bonds to the Federal Reserve bank to which they have been allotted by the Federal Reserve Board, and will deliver them to the Secretary of the Treasury.



**STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL  
RESERVE BANKS AT THE CLOSE OF BUSINESS DECEMBER 30, 1915.  
(In Thousands of Dollars)**

<b>RESOURCES</b>	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco
Gold coin and certifs. Set- tlement fund. Cr. Balances	14,097	168,965	6,440	9,559	5,223	4,872	35,162	2,967	2,700	8,381	3,975	4,205
Gold Settlement Fund.....	4,279	6,717	8,695	11,042	9,875	3,717	1,256	6,072	4,355	2,464	8,941	9,880
Gold Redemption Fund ..	6	55			334	307		25	30	107	260	
Total gold reserves..	18,382	175,737	15,135	20,601	15,432	8,896	36,418	9,064	7,085	10,952	13,176	14,085
Legal tender notes, Silver certifs and Sub. coin....	361	7,477	3,097	1,211	67	185	630	93	20	120	259	5
Total Reserves.....	18,743	183,214	18,232	21,812	15,499	9,081	37,048	9,157	7,105	11,072	13,435	14,090
Bills discounted and Loans	235	237	172	539	7,507	8,131	4,005	1,255	1,299	3,581	4,957	450
Commercial paper .....	6,493	8,715	2,543	804	150	72	2,016	661	478	429		652
Bank acceptances.....												
Total.....	6,728	8,952	2,715	1,343	7,657	8,203	6,021	1,916	1,777	4,010	4,957	1,102
Investment U. S. Bonds...	986		1,973	2,357			4,218	970	1,304	2,119	870	1,000
Municipal Warrants.....	3,041	1,269	1,538	2,846	82	330	1,256	292	861	288	72	345
Federal Reserve Notes, net	709	15,877	401	292			1,685	817	818			1,301
Due from other F. R. Banks												
net.....	1,629		3,668	2,212	1,158	617	9,886	1,367	4,439	147	169	3,485
All other resources.....	431	441	927	287	103	986	239	700	87	1,060	1,182	104
<b>TOTAL RESOURCES.....</b>	<b>32,267</b>	<b>209,753</b>	<b>29,454</b>	<b>31,149</b>	<b>24,499</b>	<b>19,217</b>	<b>60,363</b>	<b>15,219</b>	<b>16,391</b>	<b>18,696</b>	<b>20,685</b>	<b>21,427</b>
<b>LIABILITIES</b>												
Capital Paid in.....	5,158	11,063	5,270	5,941	3,354	2,423	6,645	2,781	2,547	3,038	2,753	3,942
Government Deposits.....					5,000	5,000					5,000	
Reserve Deposits, net.....	27,109	183,208	24,184	25,208	10,856	8,237	53,718	12,337	13,844	14,180	3,646	17,485
Federal Reserve notes in circulation - Net Amt.					5,266	3,456				1,478	3,286	
Due to other F. R. Banks												
net (b).....		8,010										
All other Liabilities.....		7,472			23	101		101				
<b>TOTAL LIABILITIES.....</b>	<b>32,267</b>	<b>209,753</b>	<b>29,454</b>	<b>31,149</b>	<b>24,499</b>	<b>19,217</b>	<b>60,363</b>	<b>15,219</b>	<b>16,391</b>	<b>18,696</b>	<b>20,685</b>	<b>21,427</b>

(a) Total Reserve notes in circulation, 189,026.

(b) After deduction of items in transit between Federal Reserve Banks, 20,767, the Gold Reserve against Net Liabilities is 84.6% cash reserve is 87.9%. Cash Reserve against liabilities after setting aside 40% Gold Reserve against net amount of Federal Reserve Notes in circulation, 89.6%.

(c) Maturities of bills discounted and loans: 10 days, 6,467; 30 days, 14,278; 60 days, 16,859; other maturities, 17,777; Total: 55,383.

The Treasurer of the United States will cause to be covered into the Treasury such parts of the deposits received as may be necessary to redeem the outstanding circulating notes secured by the bonds purchased, and will remit the balance to the member national bank selling the bonds. The said circulating notes when redeemed shall be canceled and permanently retired.

In the event an application to sell bonds is not granted by the Federal Reserve Board, the department will so advise the applying bank, and such bank must reapply to the Treasurer of the United States if it desires further consideration in the matter. The same procedure will be followed in case only a portion of the bonds offered for sale is accepted.

From the foregoing, it will be noted that the Federal Reserve Board will undoubtedly authorize the twelve regional reserve banks to begin purchasing from member banks at par 2% bonds under circulation account.

The public market is quiet, awaiting the action of Congress as to the provision of more revenues.

### Discount Rates.

*Discount rates of each Federal Reserve Bank in effect December 24, 1915.*

	MATURITIES				Agricultural and live-stock paper over 90 days.	Trade acceptances.
	10 days and less.	over 10 days to 30 days, inclusive.	over 30 to 60 days, inclusive.	over 60 to 90 days, inclusive.		
Boston.....	3	4	4	4	5	A 3½
New York....	3	4	4	4	5	A 3½
Philadelphia.	3	4	4	4	4½	3
Cleveland....	3½	4	4	4½	5	3½
Richmond....		4	4	4	5	3½
Atlanta.....		4	4	4	5	3½
N w Orleans br						C32-4 C32
Chicago.....	3½	4	4	4½	5	3½
St. Louis.....	3	4	4	4	5	3½
Minneapolis..		4	4	4½	5	3½
Kansas City..	3½	4	4	4	5	3½
Dallas.....		4	4	4	4½	3½
San Francisco	3	3½	4	4½	6	3

A A rate of 2 to 4 per cent for bills with or without member bank indorsement was authorized on Dec. 21, 1915.

B Rate for commodity paper maturing within 90 days.

C Rate for trade acceptances bought in open market, without member bank indorsement.

D Rate for commodity paper maturing within 30 days, 3½ per cent; over 30 to 60 days, 4 per cent; over 60 to 90 days, 4½ per cent; days, 5 per cent.

**THE NATIONAL CITY BANK OF NEW YORK**



## **“City Bank Service.”**

---

CORRESPONDENTS and depositors find this service unsurpassed. It is the outgrowth of 100 years' business experience and success.

The excellence of the service is attested by the continuous growth of our resources.

The service is available to you and might become invaluable. We should be glad to hear from bankers, merchants and manufacturers who contemplate opening a New York account or who may wish to establish new or additional banking facilities.

None too large ; none too small.

---

**THE NATIONAL CITY BANK OF NEW YORK.**





1916

## U. S. SECURITIES GOVERNMENT FINANCE ECONOMIC AND FINANCIAL CONDITIONS

NEW YORK, FEBRUARY, 1916

### General Business Conditions.

**B**USINESS conditions in the opening month of 1916 have been very encouraging from almost every viewpoint. It would be easier to name the unsatisfactory features than the favorable ones. The congestion of foreign-bound freight at the ports, with the incidental inconvenience to the railways and shortage of cars would be the most important of the latter, and the shortage and high prices of numerous materials, notably dye-stuffs, would come next. The suggestion of labor troubles, particularly upon the railways, is also disquieting, in view of statements, apparently authorized, that the four orders of trainmen which have joined in demands for a readjustment of the basis of pay will have "no arbitration this time." The railway orders, however, have always been ably directed, and it is not likely that the men as a body would favor a step so demoralizing to industry and so injurious to the country as an attempt to tie up the country's transportation system.

Trade is good in nearly all lines. Omitting New York City on account of the Stock Exchange operations, a comparison of bank clearings for the country shows a gain of about 25 per cent. over a year ago. Railway traffic is uncommonly heavy and earnings, both gross and net, are surpassing all records. The benefits of the large expenditures made in the last dozen years for the purpose of reducing operating costs are realized under a full volume of traffic as it has not been possible to realize them heretofore.

The steel industry continues at the highest possible rate of production. Every old furnace and mill that can be made to do service is back in commission, and an important amount of construction is being done. Prices continue to advance upon early deliveries, and contracts are being made for delivery as far ahead as the first half of 1917. While war orders are still an important factor in the work being done, they are a diminishing factor in the volume of business being booked. The producers naturally are giving the preference to their regular lines of business and their regular customers, and from present appearances the cessation of war business will be a much less serious matter than has been apprehended. The belligerent countries are steadily increasing their own facilities for the production of war supplies. A large amount of business is being held back by domestic buyers,

which can be counted upon to come forward as the pressure relaxes, and there is further assurance of peace business from abroad when the war is ended.

The big steel producers, like the railways, are enjoying the benefits of operations at full capacity, also the benefits of higher prices, with the result that their earnings are very large. The revenue account of the United States Steel Corporation for the last quarter of 1915 and the corresponding quarter of 1914 is given below:

Quarter ended Dec. 31,	1915	1914
Net earnings.....	\$51,232,788	\$10,379,675
Depreciation, sinking fund, etc.....	10,379,675	4,085,113
Net increase.....	40,853,113	6,294,562
Interest, U. S. Steel b. & p.....	5,687,777	5,687,777
Balance .....	35,959,393	6,304,920
Dividends, preferred.....	6,304,920	6,353,781
Dividends, common.....	6,353,781	23,300,692
Surplus .....	23,300,692	*Deficit.

The net earnings for the last quarter are ahead of those for any other quarter of the company's history, the next largest having been 780,475, for the quarter ended June 30, 1907. As a suspension of dividends for one year, they were resumed, on the strength of this showing, at the rate of 1¼ per cent. quarterly. It will be noted that the earnings for the last quarter will more than pay the dividends for the year at this rate.

The most important development in connection with the steel industry is the rapid change made in the production of coke. Expenditures running into the millions of dollars are under way for the installation of the modern by-product ovens and the old type of ovens will soon be a thing of the past.

The coal business is more than good, with production better than at any time last year prior to November. There are innumerable export orders in the market but few vessels available. Stocks are being accumulated by dealers and large consumers as a precaution against a suspension of mining operations in the spring.

The metal-mining industry continues at high prices, with copper, lead and spelter very firm, about 25 cents, 6 cents and 18 cents per pound. The price of crude and refined mineral oil continues to rise, and this has stimulated great activity in development work in the producing fields, with a corresponding demand for supplies.

The production of woolen, cotton and silk fabrics is at the highest rate in the history of the country, and the business is now on a profitable basis, the stage having been reached where buyers are

Those desiring this circular sent to them regularly will receive it without charge upon application.



ed about deliveries than prices. Much is a critical situation in dye-stuffs, but it does m to interfere seriously in production. industries dependent upon building opera- e., lumber, brick, cement, etc., are all doing ow, and winter building operations are un- active. There is a scarcity of labor which ns to curtail the supply of materials, and it ble that the rise of prices may curtail build- rations in 1916.

total foreign trade of the country in 1915 was 521,248, with exports of \$3,550,915,393, and s of \$1,778,605,855. The previous record for was \$2,484,018,292, in 1913, and for im- 1,818,073,055, in 1912. The balance of trade r of the United States in 1915 was \$1,772,- , against the previous record of \$691,421,812 .

*London Times*, of January 15, 1916, gives the ng, as representative of the advance in freight nce the opening of the war:

	July, 1914.	January, 1916.
	Per ton.	Per ton.
ne to United Kingdom.....	12s.	150s.
States to United Kingdom.....	10s.	75s.
States to Italy.....	15s.	115s.
to Genoa.....	7s.	75s.
States to Genoa.....	12s.	110s.

#### Money Market.

est rates are still dragging on the ground, a n which although comfortable and pleasing owers should never be mentioned without a g against the dangers which lurk in easy when the conditions that make it easy are ary. There has been considerable discussion as to what constitutes inflation, and exces- sues of paper money are most often men- as the most dangerous form of it.

ultimate evil, however, whether promoted by mable issues of paper or extraordinary sup- f gold is a condition in which a lot of specu- indebtedness is created which can only be ted by the sale of property, and the prices ds, securities and other property are lifted the normal level at which they can be regu- maintained. Unquestionably low interest coincident with general prosperity and excep- earnings, are conducive of such inflation. money can be borrowed at three or four per nd invested in the stocks of corporations g several times those rates, or in business ex- as that promise still more, there is evidently a tion to use it, and the results have been ex- ced so often that no apology need be offered rring to them. They should be kept before blic view.

of the most encouraging features of the t situation on a broad survey is the subsi- of speculative activity in the stock market. eneral list of stocks is lower than it was three e ago, and there has been a decided decline e issues that had previously made the largest e. A continuance of the speculative activity prevailed last summer and in the early fall absorb lending power which could not be awn without forcing a recession in the mar-

ket. There are other uses in sight for the coun- try's available credit. We must continue to receive our own securities from abroad and we must con- tinue to supply credit to foreign customers in order to keep our trade moving, and it is very desirable to accumulate claims on the foreign markets which are likely to draw gold from us after the war. Moreover, the expansion of industry is only now well under way and has scarcely as yet begun to call for credit. It is evidently undesirable, there- fore, that our lending power shall be taken up in financing a mere rise of prices.

The standard stocks are well supported upon the present level by the earnings accruing to them, and while this is the case there is no menace from that quarter to the general situation.

The interval between the last two Comptroller's calls covered a period when not much change was to be expected in the relations of the New York City banks to the banks of the country. The national banks of this city held on December 31st, \$6,269,000 less deposits from other banks, bankers and trust companies than on November 10. Their individual deposits increased \$101,857,700, loans increased \$55,987,500, and cash decreased \$34,021,600. There has been a moderate gain in cash since and the excess reserve of the New York Clearing House banks increased during the month of January from \$143,- 000,000 to \$175,000,000.

The money market has been very narrow and quiet with call money at  $1\frac{3}{4}$  to 2 per cent. and best names in commercial paper usually at 3 per cent. The supply of commercial paper remains small.

Sterling exchange has been fairly steady through- out the month around \$4.76, which is about the rate which would be realized on gold imports at the pres- ent transportation costs. Gold imports from Great Britain during the month were \$4,600,000, and it is doubtless the purpose of those who are managing the fund of British credit here to keep them at small proportions. If they are successful there is promise that interest rates may stiffen as spring activities open and money comes into demand for the spring discounts. At the rate business is going now the country over more credit eventually will have to be used, and it is only a question of time when the interior banks will want to replenish their re- serves with lawful money from New York.

#### British Mobilization of American Securities.

The British government's policy of buying or borrowing American securities from individual owners has been successfully developed. No figures have been given of the amounts thus far obtained, but it is said that the results are very satisfactory. In order to facilitate handling them the government is at first inviting deposits in sections, giving limited lists for each section, but more than one hundred securities have now been named and prices fixed upon them; prices, however, will be changed to conform to the fluctuations of the New York market.

It is understood that the government has bought largely and that pending the announcement of terms, and since many holders have preferred to



sell directly on the New York market, which the government has declared to be quite satisfactory. It is improbable that the government has sold on its own account, and whatever selling it does will doubtless be handled with great circumspection to avoid any disturbance to the markets. These transactions are chiefly in bonds.

### Bond Market in January.

During the past month our markets have continued to absorb a considerable amount of foreign liquidation, conducted however in such an orderly manner that the general level of prices has not been adversely affected. In fact the average price of 40 active bonds, as compiled by the New York Times, gradually improved from 86.68 on January 3rd to 87.18 on January 27. The large offerings from abroad, resulting from Great Britain's scheme of "mobilization" have been for the most part effected privately through the medium of the larger investment dealers. Investment demand has been fairly active. The total sales on the New York Stock Exchange for the month will approximate \$115,000,000 in principal amount. This is a slight decrease from the figures of the last two months of 1915, but amounts to about twice the transactions for January, 1915.

The most active bond issue on the Exchange has been the Anglo-French 5% Bonds, the total transactions in which will amount to about \$14,000,000, with an advance during the month of a fraction of a point. International Mercantile Marine 4½'s have continued their activity and advanced to a new high level of over 102. This activity and advance were predicted upon rumored plans of benefits to be received in reorganization. New York Central Convertible 6's and other railroad convertibles have been active on account of the improvement in railroad earnings.

The most striking incident of the month in the bond market was the successful sale on January 27th of \$25,000,000 New York State 4% Bonds. The competition for these bonds was very keen, and the successful bid of 103.27 represented an income yield to the purchaser of only 3.85%. This compares with a basis of 4.08% realized at the sale of \$27,000,000 Bonds in March, 1915. It has since been announced the entire issue has been resold and that there will be no public offering. The success of this sale is undoubtedly predicted upon the same factors which have caused an active demand for municipal and state issues in general, namely, the local discussion of a New York State Income tax, the possibility of an extension of the Federal Income tax, and the exemption from personal taxation under State laws.

During the month, the syndicate formed to distribute \$14,500,000 Seaboard Air Line Railway First Consolidated 6% Bonds has been dissolved, its efforts having met with complete success. The bonds are now obtainable only at a substantial advance over the original offering price. The American Telephone & Telegraph Co. arranged for the refunding of its \$26,425,000 short term notes maturing in April and May, and provided for its other corporate needs by the sale of \$50,000,000 Two-

Year 4½% Notes. These notes also have gone at a premium over the original offering price to investors at 99½%. The transfer of a substantial portion of the Chicago, Milwaukee & St. Paul 4% First Mortgage Loan to this market was successfully consummated during the month by the offer of a like par amount of 4% bonds payable in United States gold dollars and secured by the French bonds as collateral. The offering was very largely over-subscribed.

Our loans to foreign Governments continue. A new issue of \$5,000,000 Kingdom of Norway 6% Bonds is being currently offered on a similar basis. Because of the high credit of Norway and the 7-Year life of the new bonds, this issue should appeal to investors who desire a good security combined with a high income yield and a reasonable possibility of enhancement in price upon the resumption of normal conditions.

### Labor Situation.

In nearly all the industries expansion is limited by the labor supply, and manufacturers are bidding against each other for help. If they are not doing so directly within the same industry, there is sharp competition between the industries. The textile mills, in which perhaps wages have advanced less in recent years than in some other industries, complain of losing people to other employments. A general increase of about five per cent. has been granted in the mills.

Discussing the situation in this industry, the American Wool and Cotton Reporter, of February 1st, says in its last issue:

With any large amount of mill building, it will be a problem as to where the operatives are to come from. If they do not come from foreign countries, then they must be taken away from some other domestic industry, or from other branches of the textile field. It has been said quite conclusively that the cotton industry cannot absorb many employees from other domestic industries. A tendency has been for other industries to draw operatives from cotton manufacturing, and one of the great difficulties in the textile industry has been the fact that operatives were continually necessary and needed to be continually trained. With many manufacturers of cotton goods, it has kept down the quality of the cloth produced to keep up the cost of production. More operatives are available to take the places of those who go into other industries, and if a full quota of employees is to be maintained, the wages must be relatively higher than they have been. During the past two years or so there has been a marked drop off in the number of people coming to the United States, and also the whole tendency is to avoid the textile industry. Whereas the cotton industry used to be a mainstay for other industries, it is being eliminated to-day, and the tendency probably will be even more noticeable in the future.

In the steel industry there has been a general advance of wages of about ten per cent. and it is worth mentioning that this is additional to a similar advance on February 1, 1913, which has since been revoked. Along with higher wages, better conditions in the steel industry are much better than formerly, the labor having been lightened by the use of mechanical appliances and many provisions made for the comfort of the workmen.

In the metal mining districts of the West, advances have occurred, and the coal miners in anthracite and bituminous fields have formed



demands for the two-year period beginning next. The advances in the iron and steel and numerous other industries make it probable that coal operators will have to fall in line with them.

Four orders of railway trainmen have submitted a demand for a new basis of pay in the service on all roads in the United States. Presently they are paid upon a mileage basis with a proportionate rate if the run requires more than eight hours. They ask that eight hours be set as the limit for a run, and that time-and-a-half be granted when it is exceeded.

Adjustments are pending upon the wages of operatives in the clothing industry, and smaller numbers in other trades. Of course wages are very much improved by the fact that the present is generally for full time and in many cases for overtime, with pay accordingly.

The movement illustrates how easily wages advance when business conditions are favorable and the supply of capital increases. It illustrates the fundamental law of progress which inevitably results in the division of product between capital and labor, but which amid all the wrangling and confusion is seldom alluded to. Capital in all advanced countries increases faster than population, and this is especially true in the United States, as shown by the census returns. Since capital cannot be put to use without employing labor, it follows that a constantly increasing amount of capital commands a relatively smaller amount of labor. Under such conditions there is an inevitable tendency for wages to rise; the new supplies of capital coming on the market would have to lie idle if they did not enter the field and bid for labor from the capital already conducting industry. If the supply of labor increased at the same rate as the supply of capital the balance between them would remain the same, but with capital increasing faster than labor the latter constantly comes into a weaker position.

From this it is understood it is seen that for the rich to grow richer and the poor grow poorer or to share in the progress, in the very nature of things is impossible. Every attempt of the rich to alter the capital sets in motion equalizing influences. As capital accumulates rapidly, the demand for labor increases with even greater relative rapidity. The direct effect upon wages is modified by the fact that as labor becomes scarce and wages rise there is a greater inducement to install labor-saving machinery, but improvements of this kind multiply and cheapen the production of all the necessities of life, and the wage-earners share in the gains as consumers. They are gainers in every way the equation works out.

Henry Ford has chosen to make a large direct contribution to his workmen in the form of higher wages, but he is devoting a part of his accumulation to the development of a farm tractor which when adopted will decrease the cost of farming operations and cheapen the cost of food. If he is successful in his portion of his profits that is so expended will be more serviceable to the wage-earning class

as a whole than any distribution of cash among his own workmen and this illustrates the results of capital accumulations on every hand.

There is going on now a rapid accumulation of capital in this country, and a corresponding increase in the demand for labor. Under normal conditions such a condition is wholesome and beneficial, but it would be a mistake not to recognize that present conditions are abnormal. If capital was increasing all over the world as it is in the United States wages would go up abroad as well as here but unless wages advance in other countries we will have either an inflow of labor or an outflow of capital after the war is over, until the equilibrium is restored. The best conditions in industry for both employers and employed are those that make for stability, affording steady employment, increasing output and a constantly enlarging distribution and consumption of products.

#### Influence of Immigration.

Some comment has been received upon a recent reference in these columns to the subject of immigration and its influence both in this country and the countries from which it comes.

There is no denying that the outflow of laborers from the old countries to the United States and other new countries has been beneficial to the laboring people of the former regions. Those who have come here have bettered their condition, and their coming has relieved over-crowded districts abroad and helped to raise wages there.

The movement has been a natural and economically sound re-distribution of population, as the same amount of labor would produce more here than there. It has been necessary to the development of the resources of this country, and for the best interests of the great body of wage-earners of this country. It has been the glory of this country that there have been more opportunities for advancement for the workingman and his children here than anywhere else in the world. The children of the laborer do not pass through the public schools and come out to be unskilled laborers. They are qualified for better paid employment. The children of the Irish day laborers of fifty years ago are prominent now in all the walks of life.

Notwithstanding the amount of work done by machinery there remains a large amount of work which must be done by manual labor and for which very little skill is required. It is a waste of ability to have this kind of work done by men who are capable of higher grade work, in the same sense that there is an economic waste in having work done by manual labor that can be done by a machine. The unskilled labor which has come in from the old countries has enabled more competent labor to rise to better things. There must be a certain proportion of unskilled labor to the total number of people employed, and if it cannot be had industry cannot expand, and there will be less demand for skilled workmen of all kinds, clerks and professional men, and fewer opportunities for the army of bright and trained young men who are every year leaving the schools and entering business life.

The ranks of unskilled labor in this country have



always been recruited from abroad and they cannot be filled from our own youth. A large proportion of even the immigrants do not stay there, but pass through and up into better paid employments, but they could not do so if others were not coming in to take their places.

### Rural Credits.

The joint committee upon Rural Credits, which was appointed in pursuance to a provision in the agricultural appropriation bill passed by the last Congress, has now reported a bill for a system of land mortgage banks. The subject of rural credits has been under discussion for some time, with a growing interest in it, and it will be remembered that late in the last session of Congress Senator McCumber, of North Dakota, offered an amendment to the bill carrying the annual appropriations for the agricultural department, providing for a system of government loans upon farm mortgages, which was adopted by the Senate. The House declined to accept the McCumber amendment, and substituted what was known as the Hollis bill for it. Finally the matter was temporarily disposed of by providing for a joint committee, consisting of six senators and six House members. The senators are Owen, Hollis, Gore, Smith of Georgia, Nelson and Brady. The House members are Glass, Lever, Moss, Hayes and Hawley. The action of both houses has indicated that Congress is about ready to legislate on the subject, and as the administration will press for results it is very likely that something will be done at this session.

It goes without saying that the whole country is interested in anything that will benefit agriculture. There is much evidence that agriculture the country over has not been keeping pace with the other industries. In every other line of production improvement in methods has been rapid, and there has been a constant tendency to reduce costs, but the reductions so made have been offset by the higher wages made necessary by the higher cost of food.

One reason for this lies in the fact that the best of the cheap lands of this country have been occupied, and it is not so easy to increase food supplies as it was formerly. Our increasing requirements in the future must be met by more scientific tillage and by bringing into cultivation lands that require a considerable expenditure for drainage, clearing, the restoration of fertility, etc. This means that there must be a larger use of capital, and it is desirable that capital shall be readily available for these purposes. Many well-informed men are convinced that the facilities for extending credit to farmers are not as good as they might be and that there should be an organized effort to improve them. The question is what practical aid can the national government render?

### The Government's Credit.

Of course there are people who think that the government can easily solve the whole problem by advancing the money or lending its credit. They think the government can borrow very cheaply and that it costs nothing to use the government's credit. They do not understand that if the government

should borrow on a great scale it could not borrow cheaply. There are only a limited number of people who prefer low rate government bonds to state, county and municipal bonds and sound investments which pay a higher return. It follows that as the supply of government bonds increases the rate will gradually rise, not necessarily because the government's credit is impaired, but because the demand for that part of security is satisfied, and additional issues must attract another class of investors.

On account of the tax-free privilege of government bonds, and the circulation privilege they carry for national banks, the preference for government bonds as an investment has grown greater in this country than it really is. There are only \$844,827,590 United States government bonds outstanding which draw less than four per cent interest, and of them \$746,417,890 are owned by national banks and Federal Reserve banks. There are only \$50,000,000 government bonds outstanding that are not eligible for use as security for government issues. These draw three per cent. interest and perhaps \$50,000,000 more could be sold without lowering the price below par, but the market for them is soon satisfied.

It is a mistake, therefore, to think that a gain could be made by using the government's credit, either for farm loans or for other industrial undertakings frequently suggested. The rate of government obligations would be forced up by such a policy, and the government would be a loser. All borrowings for its regular, necessary functions. The government's credit should be used very sparingly outside of its own functions.

### Artificially Low Rates of No Advantage.

It is not likely that farming as a business can be much benefited by the use of government credit instead of other credit. The main thing is to have credit more readily available than it now is in all parts of the country, and upon normal, reasonable terms. If money for farm loans is made cheaper and cheaper than it now is, the selling value of lands will surely rise; and if our chief hope is realized, and farming is made more productive and profitable, the effect will be to reduce the price of farm products. Under these conditions there are sure to be complaints that the situation of the farmer is no better than it was before, and there will be a lot of farmers who, in fact, are no better off than they were before. The progressive, capable farmers will always produce more profit than the poor ones, and make the prices at which the latter must sell.

Of course it does not follow from this that it is not worth while to increase the borrowing facilities of the farmers. It is not worth while except by methods that are economically sound. If the progress of agriculture is being hampered for want of facilities by which capital can flow freely, there should be a way to remedy the situation, but such facilities are provided if capital does not flow naturally it must be because it cannot be profitably used.



## Debenture System.

many parts of the country where there is no home capital seeking investment, and in preferred territory where insurance companies, banks and mortgage companies are competing with each other, the situation can scarcely be improved by legislation. But there is much evidence that in some sections of the country there is enough money available for farm loans to supply legitimate demand, and that rates are unduly high and development is retarded.

It is difficult to dispose of farm mortgages away from home except through a well-developed organization. The life insurance companies buy farm mortgages on reserves, and have their own organizations to handle them. There are numerous mortgage companies which, in the aggregate, place a large volume of loans, and the country banks make a good market for the mortgage companies and banks are anxious to find an outlet for all the loans they can handle. There is constant inquiry at the centers of the market for mortgages, but a distant investor who knows neither the borrower nor the property, and cannot examine the property, hesitates to go it blind in placing his money.

Another objection is that there is no market for the resale of farm mortgages, in case the investor wishes to realize upon them before maturity.

It is evident that if there was a corporation of some responsibility and prestige to sell its own mortgages, based upon mortgages, and create a market for them on the strength of its own credit, the problem of finding money for mortgages would be solved. In other words, a corporation is needed to do in the farm mortgage field what the National International Corporation, recently described in these columns, is preparing to do in the investment field.

Such a corporation could maintain an organization for examining property, inspecting titles, looking after the payment of taxes, the continuance of the mortgage and the collection of interest, all of which are unattractive for the individual investor. There are corporations doing this with a good degree of success in a limited territory, but unfortunately they have had a disheartening experience with debenture companies about twenty-five years ago which has been an obstacle to subsequent development along that line. Moreover, the states whose mortgages bear the best reputation have been reluctant to supply with money that it is doubtful if a debenture system would have served them better. It is generally agreed that a debenture company should have a margin of at least one per cent. between the rate upon its debentures and the rate upon the mortgages thereunder, and where the current mortgage rate is five per cent. or even five and one-half per cent. reduction under the debenture system is not possible. In localities, however, where the ordinary mortgage rate is above six per cent. if the debenture is good enough and the volume large enough to justify a debenture business, the system is not only advantageous.

The superiority of the debenture bond over the ordinary mortgage is that, as the former is based

upon a large number of mortgages the element of averages enters into it. The risks of the business are reduced to the minimum. Once a large debenture business is established, with ample capital and surplus to serve as a guaranty fund, and given careful management, it should be successful, but in the old farming states of the north it would have to do business on a very close margin of profit.

## State Legislation.

The states of Massachusetts and New York have recently adopted legislation designed to establish debenture systems for supplying rural credits. The Massachusetts act, which was passed in 1915, authorizes the organization of Farm Land Banks, with a capital of not less than \$50,000, which shall be under the supervision of the Bank Commissioner of the state. These banks are authorized to issue debenture bonds based upon farm mortgages which are a first lien and do not exceed fifty per cent. of the value of the property, but the amount of bonds issued must not exceed 95 per cent. of the face value of the mortgages. Loans shall be for not less than five or more than thirty-five years, and if for more than five years must provide for regular amortization payments which will extinguish the loan at maturity. Interest rates upon the mortgages must not exceed rates upon the mortgages by more than one per cent.

The New York legislation was incorporated in the new state banking act of 1914, and is an extension of the previously existing system of local savings and loan associations, which lend money on either farm or city property. The "Land Bank" is a central organization of these local associations, which will receive mortgages from them and issue debenture bonds upon this security. Not less than ten local associations must join in organizing the land bank and subscribe for at least \$100,000 of the capital stock. The land bank is authorized to invest its own capital and other funds in mortgages, and also to receive from its member associations mortgages which they have negotiated, and issue debenture bonds against all such, provided that each series of bonds must be for at least \$50,000. The mortgages are deposited with the Comptroller of the State of New York. The land bank is limited in the issue of debenture bonds to not more than twenty times its own capital.

The Land Bank of the State of New York has been organized under these provisions, and the first series of bonds has been sold. They draw four and one-half per cent. interest and were sold to the Guaranty Trust Company. Of the mortgages behind this series \$17,000 are upon farms and \$33,000 upon city property. The properties covered are located in twelve counties.

## The Pending Federal Plan.

The plan of the Joint Committee for a national system, provides for twelve or more Federal Land Banks, each in a separate district, after the scheme of the existing Federal Reserve System. These banks are to have a paid-up capital of not less than \$500,000, and will be authorized to issue debenture bonds based upon mortgages, to an amount not ex-



ceeding twenty times their capital and surplus. The mortgages must be a first lien on improved farms occupied by the owners, and for not exceeding fifty per cent. of the appraised value of the property. The loan must be for expenditures upon the farm, i.e., purchase of the same, or for improvements, stock, etc. Every mortgage shall be for at least five years, but thereafter may be paid in whole or in part at any interest date, and must provide for a regular payment of not less than one per cent. upon the principal at each interest date, which without other payments upon the principal will extinguish it in thirty-six years.

The bill also provides for local associations, to be known as National Farm Loan Associations, which shall be composed of borrowers. Each borrower must take stock in the association to the extent of five per cent. of the amount of his loan, and the association must subscribe to the stock of the central land bank of its district to the extent of five per cent. of the face of the mortgages which it passes up to the land bank. In this manner the borrowers themselves supply the required capital of the land banks, which is to be not less than five per cent. of the debentures issued, with a minimum of \$500,000. In order to supply the minimum capital at the start, the Secretary of the Treasury is authorized to subscribe for any amount of the stock of the land banks that may be necessary to provide the \$500,000 required for each. As the business develops and borrowers supply the capital, the stock taken by the Treasury will be gradually retired. It will be seen that the scheme in its final development is strictly co-operative.

The debentures issued by the land banks will bear one per cent. less interest than the farm mortgages which they represent, but if any profit above the interest is realized it will go back in the form of dividends to the local associations, and be distributed by them in the form of dividends to the borrowers in exact proportions to their loans.

Over the entire system is established a National Farm Loan Board, which shall consist of five members, not more than three of whom shall be of one local party, all to be appointed by the President, subject to the advice and consent of the Senate. The members shall devote their entire time to the duties and will receive the same pay as members of the existing Federal Reserve Board, to-wit, \$12,000 per year. The Board will have supervision of the Farm Loan Banks, and be represented in the management of each of these banks by a Registrar, whose duties shall correspond to those of the Federal Reserve Act under the Federal Reserve system. The Board will appoint one or more land bank appraisers for each district, and as many special appraisers as may be deemed advisable. The entire expenses of the system will be apportioned upon the land banks.

The resources of all the land banks are pledged to the redemption of the debentures issued by them.

The maximum loan to one borrower is \$5,000.

The debenture bonds will be exempt from Federal, state or local taxation, and a law will be passed vesting for all fiduciary and trust funds, and for the purchase of securities, to be accepted as security for government deposits, the purchase by the member banks of the Federal Reserve system.

## STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS JANUARY 28, 1916.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco
Gold coin and certif's. Settlement fund. Cr. Balances	16,548	160,184	12,347	9,696	4,676	5,205	31,676	3,015	3,140	8,813	4,045	4,520
Gold Settlement Fund.....	1,877	11,346	3,000	11,500	11,048	3,884	14,152	5,882	4,344	3,295	8,987	5,535
Gold Redemption Fund ..	9	114			281	338		21	30	107	246	
Total gold reserves..	18,434	171,644	15,347	21,196	16,005	9,427	45,828	8,918	7,514	12,215	13,278	10,055
Legal tender notes, Silver certif's and Sub. coin....	1,086	3,742	6,296	1,701	58	239	1,145	139	263	224	592	11
Total Reserves.....	19,520	175,386	21,643	22,897	16,063	9,666	46,973	9,057	7,777	12,439	13,870	10,066
Bills discounted, Members Commercial paper ..	191	209	223	359	6,748	6,081	3,033	1,087	1,079	2,869	4,592	450
Bill bought in open market	7,420	10,454	2,073	932	150	400	2,278	829	490	497		782
Total.....	7,611	10,663	2,296	1,291	6,898	6,480	5,311	1,896	1,569	3,366	4,592	1,232
Investment U. S. Bonds...	983		2,991	2,882		25	4,830	1,666	1,474	2,188	1,295	3,035
Municipal Warrants.....	3,305	7,060	2,977	2,789	160	331	1,482	441	1,174	349	76	458
Total Earning Assets	11,902	17,723	8,264	6,962	7,058	6,846	11,623	4,003	4,217	5,903	5,963	4,725
Federal Reserve Notes, net	1,025	25,185	658	894			1,747	941	610			5,409
Due from other F.R. Banks net.....	1,108		1,368	562	2,259	1,006	2,540	643	4,720	1,369	73	1,865
All other resources.....	504	614	372	701	104	1,072	244	4,212	113	1,171	711	176
TOTAL RESOURCES.....	34,059	218,908	32,305	32,016	25,484	18,590	63,127	18,856	17,437	20,882	20,617	22,241
LIABILITIES												
Capital Paid in.....	5,158	11,058	5,270	5,938	3,356	2,423	6,646	2,783	2,549	3,014	2,756	3,941
Government Deposits.....	723	5,507	597	336	5,897	6,151	893	1,041	170	501	5,162	782
Reserve Deposits, net.....	28,178	195,591	26,438	25,742	11,301	8,175	55,588	15,032	14,718	16,247	10,136	17,518
Federal Reserve notes in circulation - Net Amt.....					4,895	1,735					1,120	2,563
Due to other F. R. Banks net (b).....		6,752			35	106						
All other Liabilities.....												
TOTAL LIABILITIES.....	34,059	218,908	32,305	32,016	25,484	18,590	63,127	18,856	17,437	20,882	20,617	22,241

(a) Total Reserve notes in circulation, 179,224.

(b) After deduction of items in transit between Federal Reserve Banks, 10,761, the Gold Reserve against Net Liabilities is 77.4% of cash reserve is 80.8%. Cash Reserve against liabilities after setting aside 40% Gold Reserve against net amount of Federal Reserve Notes in circulation, 81.8%.

(c) Maturities of bills discounted and loans: within 10 days, 7,744; to 30 days, 11,259; to 60 days, 18,518; other maturities, 15,694.



sion is also made for receiving time deposits at interest.

and banks are authorized, in case local associations of borrowers are not formed, to appoint agents to make loans, but the condition requires a borrower to subscribe five per cent. of the capital of the land bank remains the

plan is, for the most part, an ingenious adaptation of the Federal Reserve system. In its more important features it seems to be well conceived, and the practicability of the local associations will be tested. The avowed purpose of the plan is to encourage and stimulate co-operation, which is to be encouraged, but the people of this country are very individualistic, and usually prefer to do business in an independent manner. It is a question whether they will care to bother with a cooperative association, and whether it would not be better to make larger use of the existing machinery of making mortgages. The local representatives of land banks should not only have good knowledge of land values, but be methodical and efficient in the collection of interest and in supervision over payment of taxes, continuance of insurance and all other matters necessary to the protection of the mortgages. Country banks are competent to do all this, are everywhere and can afford to handle this business on a small line for small pay. If agencies were given

to all members of the Federal Reserve system it might aid in popularizing that system.

#### No Personal Loans.

The system proposed is conservative in its provisions as to security. Probably the most frequent comment made upon it will be that a man who is able to own a farm subject to no greater encumbrance than this plan allows will be able to get along very well without the system. Certainly this is true in many parts of the country, but there is testimony that in many other localities it will reduce rates. Certainly this general plan will facilitate the movement of capital into and out of mortgage investments.

As to the tenant farmer, now financed by the landlord and local merchant, whose needs have been the text of most of the appeals for a system of rural credits, he is outside the provisions of this measure, and it is difficult to see how anybody but the landlord and local merchant can safely do business with him, until he has become forehanded enough to have established a personal credit.

#### Discount Rates.

Discount rates of each Federal Reserve Bank in effect Jan. 29th, 1916 are the same as those of Dec. 24th, 1915 — excepting the Boston rate on Maturities over 10 days to 30 days has been reduced from 4% to 3½%; and the Dallas rate on Trade Acceptances over 60 to 90 days, has been reduced from 4% to 3½%.

**THE NATIONAL CITY BANK OF NEW YORK.**

## **“City Bank Service.”**

---

CORRESPONDENTS and depositors find this service unsurpassed. It is the outgrowth of 100 years' business experience and success.

The excellence of the service is attested by the continuous growth of our resources.

The service is available to you and might become invaluable. We should be glad to hear from bankers, merchants and manufacturers who contemplate opening a New York account or who may wish to establish new or additional banking facilities.

None too large; none too small.

---

**THE NATIONAL CITY BANK OF NEW YORK.**





1916

## U. S. SECURITIES GOVERNMENT FINANCE ECONOMIC AND FINANCIAL CONDITIONS

NEW YORK, MARCH, 1916

### General Business Situation.

**T**HERE is no slackening in the demand for goods or signs of weakness in the general business situation, although there is no little complaint of annoyances incidental to its rapid expansion.

Nearly every line of industry is hampered by scarcity of supplies of some kind, and the whole situation is complicated by car shortage and congestion at the railway terminals. Prices are being pushed upward, but profits are uncertain to manufacturers unless they have covered their requirements for raw materials. The industries working upon war supplies have been drawing labor from other lines and affecting the entire wage situation. The rise of wages in the cities also attracts men from the farms and threatens to make the problem of agricultural help more acute. Ordinarily periods of prosperity stimulate immigration, but no relief from that source is possible while the war lasts, and the proponents of an educational test for immigrants are citing the war as a reason why Congress should pass their measure a third time, it having been vetoed by Presidents Taft and Wilson. Of course high wages that signify a permanent condition of prosperity are to be welcomed, but changes that are due to temporary conditions, and which disorganize permanent industries, may cost the wage-earners more than they come to.

The copper-mining industry has solved this problem harmoniously by means of a sliding scale of wages based on the price of copper. This agreement has been in effect for some years and works satisfactorily within the industry, but it does not prevent dissatisfaction in neighboring industries, which are not favorably affected by the war conditions. It is estimated that on the same output, but at the present level of prices, the copper product of the United States will bring \$200,000,000 more in 1916 than it did in 1915.

Railroad traffic, despite the difficulties due to congestion, is making new high records. Returns from practically all of the mileage show gross earnings in December of \$286,148,788, as against \$223,358,512 in December of 1914. Of course the net results of a full business are still more notable, being \$99,513,498, as against \$56,657,780, or about 75 per cent. The gross receipts for the calendar year were \$3,053,664,661, or 4.6 per cent. over 1914; net operating earnings were \$955,664,313, or 25.5 per cent.

over 1914. It should be remembered in this connection that expenditures upon the roads were reduced last year in the most drastic manner, and that cannot be held down to this level permanently. Roads that are well kept up can go for a year with comparatively light expenditures for maintenance, but in the long run the expenditures must be made. No doubt there will be more liberal appropriations in 1916.

Two important events occurred in the steel industry during the month, which resulted in the disappearance as independent factors of two well known concerns, the Cambria Steel and Iron Company, which was absorbed by the Midvale Steel and Ordnance Company, and the Pennsylvania Steel Company, which together with its subsidiary the Lackawanna Steel Company, was taken over by the Bethlehem Steel Company. Both the Midvale and Bethlehem Companies had been developed largely as finance companies, and their new acquisition is intended to broaden their activities. New business continues to accumulate with all the steel companies, and they are advancing very rapidly. According to the *Age*, the average price of eight staple steel products was \$49.10 per ton on February 23rd, compared with an average in January of \$43.81. In January 1915, the average was about \$30, which was normal. The previous high average for the steel products in the last eleven years was \$40.81 in 1907.

All of the industries making goods for the domestic sumptive trade are actively employed, and busy material manufacturers, including lumber, are doing well for a good spring business.

The farmers have marketed most of their crops, and at better prices than seemed probable when they were harvested. This is particularly true of wheat, which started off in July last under favorable conditions. The scarcity of shipping facilities made the situation very uncertain, but seamen have worked to the advantage of American wheat, as against South American wheat, India, on account of the shorter voyage. The relative cost of moving wheat to English ports now is in ordinary times is given below:

	Feb., 1916.	Feb., 1915.
United States, bu.....	\$0.58 $\frac{3}{4}$	\$0.24 $\frac{3}{4}$
Argentina, bu. ....	1.08	0.43 $\frac{1}{2}$
India, bu. ....	0.90	0.14 $\frac{1}{2}$

Wheat has touched \$2.00 per bushel in Liverpool this winter, which is considerably higher than

Those desiring this circular sent to them regularly will receive it without charge upon application.



st year, although the price in the United States reached the high point of last year. The American markets is now about 22 cents that of a month ago. The income of the growers under the last two crops has been reduced, but the outlook for 1916 at this indicates a smaller yield. The acreage is tent under last year's and the plant is reported in condition over a large part of the winter

cotton market has shown weakness during the month, the near deliveries ranging down to 11 cents. The exports of cotton from August to January 31st last, were 2,960,958 bales against 3,979,347 bales in the corresponding period of the previous year. The consumption of cotton for the same six months of this year was 3,074,654 against 2,589,880 bales in the same period of the previous year. The prospect for prices evidently depends upon two events, both very uncertain to writing, to wit: whether or not the war will be over before the next crop is sold, and the size of the crop. There is evidently a temptation for the planter to plant cotton on peace, which whenever it comes, will advance cotton. On the other hand the counsel must be for the South to continue to grow its own grain, hay and all supplies. Along with cotton it will find permanent prosperity.

There are bringing fair prices, hogs very good and beef high prices. The Government's estimate of stock on farms on January 1, 1910, was 47,000 hogs, 69,080,000 cattle and 57,216,000 sheep. On January 1, 1916, the Government gives 68,047,000 hogs, 61,441,000 cattle and 49,162,000 sheep on farms. This shows 20,265,000 more hogs on farms than in 1910, but 7,639,000 less cattle and 8,054,000 less sheep. Notwithstanding a severe winter over the northern range country stock is said to be coming through in good condition.

### Financial Situation.

The money market remains practically unchanged, although there can be no doubt that an infusion of funds is in progress over the country. There are reasons for thinking that the present ease will not last throughout the year. Prices are rising, as shown by bank reports to the controller and by the Clearing House statements, the expansion of domestic business, higher commodity prices, the situation in security markets and necessities of our foreign trade, all forecast increased demands upon our banking resources. The comptroller's statement of the condition of national banks on December 31st last shows that assets had increased since December 31st, 1914, by \$10,000,000, of which not quite \$700,000,000 is in New York City. A considerable portion of the loans undoubtedly are upon securities, and of this class will have to be made.

It has been made upon the depository banks for the proceeds of the \$500,000,000 Anglo-French loan for fifteen per cent of the same, which indicates that the disbursement of this fund will soon be completed. The British government is actively pushing its campaign for gathering the

British holdings of American securities into its possession. The *London Times* of recent date states that this effort has been very successful, the government committee's purchases having been about three times as large as originally anticipated. These purchases are made with the express intention of using the securities for the creation of new credits in New York, either by sale in this market or by borrowing upon them. In either case the undertaking has an important bearing upon the situation here.

All comments in London upon the financial aspects of the war show an expectation that the necessary funds will be, to a great extent, supplied by realizing upon British holdings of foreign securities, and this is the only market in which realization on any important scale can take place.

These securities for the most part consist of the choice issues of railway bonds, which have been accumulated by well-advised British investors and they are coming back to this country at a level of prices below what they have commanded in the past. It is highly desirable that they shall be acquired, and especially so since they will be offered for the purpose of supporting sterling exchange, thus facilitating the export movement of our products.

The bond market is in excellent shape to take these offerings. The country is accumulating capital faster than ever before and there is a steady investment demand with little new financing in sight at home. If the British government can sell its holdings outright without loss presumably this course will be preferred, otherwise it will probably desire to borrow. Of course these securities will not be finally disposed of so far as this market is concerned until they rest in the hands of investors and are paid for. Until then they will be an influence in both security and money markets.

With the opening of spring many new activities will be released, and the demand for money and credit will be larger. If the interior banks find it necessary to replenish their cash reserves from New York the situation in the money market may change speedily.

### Bond and Stock Market for February.

The bond market during the month of February, as reflected by the volume of sales on the New York Stock Exchange, has been less active than in January, or the latter part of 1915. The average daily transactions to the close of business February 23rd, have been \$3,661,500, compared with \$4,621,900 in January and \$4,635,000 in December, 1915. Sales have shown a tendency to decrease in the latter half of the month, but the volume of business is still largely in excess of a year ago. The general level of prices has fluctuated within narrow limits. The average price of 40 active bonds, as compiled by the *New York Times*, on February 23rd, was 87.04, compared with 87.07 on the first instant. During the early part of the month the average rose to 87.35. The real investment demand for the high grade issues has remained active and the prices for such bonds have been firm.

Anglo French 5's have been the most active issue



on the Exchange, as was the case in January and December. The daily sales for these bonds have averaged during the month over \$600,000. This large issue is gradually being absorbed by investors. The E. I. du Pont de Nemours Company has just adopted a new policy by distributing \$11,182,300 Anglo French bonds as a special dividend upon its Common Stock.

Imperial Japanese Government 4½'s, while not as active as the above bonds, have been in good demand and have advanced in price. Japan reports a superabundance of funds, due to large exports principally of munitions to Russia. The Government has found it possible to raise capital by internal borrowing, applying the proceeds to the redemption, prior to maturity, of short time issues in London and Paris.

International Mercantile Marine Collateral 4½'s have also been very active, reflecting various developments attending the reorganization of the Company. New York Central Debenture Convertible 6's still remain one of the favorite issues with investors and traders. New York Railways Company Adjustment Income 5's have been actively traded in, in anticipation of the 3.2% distribution from earnings for six months to December 31, 1915.

Several new issues have been offered during the month, and have been well taken, indicating strong investment buying. The largest bond offering has been the \$50,000,000 Midvale Steel & Ordnance Company twenty-year 5% Collateral Trust Bonds. These bonds, which are convertible into stock at \$100. per share, par \$50., were offered to the public at 99. The bonds represent the only funded debt of the Company, and are secured by the acquired stock of the Cambria Steel Company. The issue was largely over-subscribed.

New York banking houses have purchased \$18,500,000 one-year 5% Notes of the Government of the Argentine Nation. The notes have been offered on a 4.70% basis. Including this loan, the Argentine has borrowed \$64,500,000 in this market since the outbreak of the European war. Loans to the South American countries were formerly sought in Europe.

Sales on the exchange during February have declined in the last few days, compared with the first of the month. The average daily transactions for the first 9 days of the month were 505,246 shares, against 460,000 shares for the last nine days. In January the daily average was 547,949 shares. Railroad stocks have generally declined a small fraction, while industrial issues have shown the opposite tendency. Copper issues have been firm on account of the very high prices for the metal. Canadian issues, especially Canadian Pacific, have been very heavy, due to the prospects of additional war taxes on the profits of Canadian corporations.

### Wage Controversies.

The conference between mine operators and their employes for the settlement of the terms of employment in the anthracite and bituminous coal mines after April 1st next is now being held in New York.

The differences between them are very considerable, but both sides seem to have approached the matter in a conciliatory spirit, and, what is particularly gratifying, with recognition of the public interest in an amicable adjustment.

The meeting of railway managers with the representatives of the railway orders, to consider the demands of the latter, is awaited with more than ordinary concern, on account of the enormous possibilities of mischief that lie in a disagreement. The holders of the orders have lately given out denials of having taken a decisive position against arbitration, but it is known that they were much dissatisfied with the results of the last arbitration and have talked of their unwillingness to submit to another.

In terms, their demand is simply for an increase of one hour a day, but the managers say that the cost of railway operation are such that the hours of work cannot be so restricted, and that the corresponding demand for time-and-a-half for all over-time work would require a large increase of pay. The American Federation of Labor has announced its support of the demands of the employees.

These and other demands of employes upon employers are formulated and supported by various organizations generally upon the theory that the concessions will come from the employers and that the general position of wage-earners will be improved. It is possible that there may be isolated instances where this is true, but it is certain that, taking the whole field of industry together, it is not true. Generally speaking, when new demands enter into the prices of the product, and when counter-balancing economies are introduced, the result of wages means that the public must pay more for the goods or services, and as the public is composed of wage-earners, the effect is to raise the cost of living on themselves. There is no advancement or betterment of conditions in this.

It is true that there are classes which are not allowed to arbitrarily raise their own compensation, but it may appear that some advantage is secured for them. The farmers are such a class; but the effect of raising wages in the cities is to attract men from the farms, and this raises the price of farm products by reducing the output, and in this manner a readjustment works itself all around the circle.

This is not to say that a close organization of wage-earners, which is able, either by reason of skill or knowledge required or by help of union rules, to have a practical monopoly of certain employment, may not lift wages above the level for work of the same grade in other employments, but this is at the expense of other wage-people who must help pay these costs.

The miners who are now complaining of the low cost of living, and asking to have their wages raised, will be affected adversely by higher freight charges upon coal or upon the goods they consume, and the railway men and all other classes of wage-earners will be unfavorably affected by higher costs of mining coal. Furthermore, when the advance has been made all around the circle, so that each class of workmen has gained enough to offset its increased payments to the others—or, in



when each has obtained enough to make the rising "costs of living," the net result is to be that the United States will be too far the level of costs abroad to sell its products in foreign markets. It is certain that under normal conditions abroad this situation would result in a glut of production here, and a state of slack and unemployment which would be costly to farmers.

The truth is that the only gains made which are at the expense of other groups or classes are the gains which come from improvements in the method of production and distribution. Wherever the method can be increased, or a saving can be accomplished in distribution, there is a chance for gain, to the producer or consumer, or both. During the last dozen years the average freight train load in the United States has been increased fifty per cent, affecting an important economy in the cost of transportation. Fair play would dictate that the farmers who had the enterprise to invest the necessary money to achieve this, should have a share in the interest, and something more as an incentive. The railway employees should be compensated for their share in it, and that the public should have its share. It is said that similar gains have been made in the coal industry, and if so it is desirable that a similar distribution occur there.

The most serious handicap upon industry is the high prices of agricultural products which have risen in the last twenty years, and which has necessitated a rise of wages in order that wage-workers might hold their own. Great efforts are being made by the Federal government, by some of the States, and by many private agencies and organizations to disseminate a knowledge of better farming methods. It is hoped that increased yields per acre will reduce costs to the farmers and lower prices to consumers. If it comes out so, there will be a net gain to everybody, and this will illustrate the line of progress along which all efforts should be directed. There can be no question that employers and employees would cooperate harmoniously with the purpose of first getting the large-scale production of every commodity of commerce, and the best brains of the country would be given attention to securing distribution in the most efficient manner, the benefits would surprise.

## Revenues and Taxations.

Presently, the problem of how to provide the revenues required to meet the estimated expenditures of the Federal government for the next fiscal year has not yet been worked out to a point of agreement among the leaders in Congress. The war revenue act, which by its terms was to expire on September 31st, 1915, has been extended, and the tax on one cent per pound on importations of goods which by the terms of the Underwood act, was to be effective on May 1st, will be continued. The former is estimated to yield in the fiscal year 1917, \$82,000,000, and the latter \$45,000,000. The Secretary of the Treasury calculates that

\$112,800,000 of additional revenue should be forthcoming in order to meet the increased expenditures upon the army and navy and maintain a working balance of \$50,000,000 in the Treasury. The amount required is not much above \$1.00 each for the inhabitants of the United States, which is not a formidable sum as compared with the taxes our neighbors in Canada and the peoples of Europe are called upon to pay, but it is no easy task to reach an agreement upon how it shall be raised. The President and Secretary of the Treasury have suggested certain specific taxes, upon steel products, gasoline, automobiles, etc., all of which are vigorously opposed by the people who would be directly affected, and who protest that the cost of national preparedness should not be put upon a few industries. In the past, resort has been had to a stamp tax on bank checks, but the use of bank checks has been popularized to a point where there is manifest reluctance to put any burden there. The proposal that meets with the smallest numerical protest is that to enlarge the application of the income tax and to increase the super-taxes upon large incomes.

## The Income Tax.

The collections under the income tax have now been made twice, i.e., for ten months of 1913 and the full calendar year 1914. The amounts received under the several classifications of the law during the fiscal years 1914 and 1915 are as follows:

	1914	1915	Increase
Income tax, normal..	\$12,728,038.02	\$16,559,492.93	\$3,831,454.91
Income tax, additional:			
Net incomes—			
\$20,000 to \$50,000..	2,934,754.40	4,106,678.36	1,171,918.96
\$50,000 to \$75,000..	1,645,639.30	2,500,890.33	855,251.03
\$75,000 to \$100,000..	1,328,022.61	2,102,927.01	779,904.40
\$100,000 to \$250,000..	3,835,948.45	5,945,104.55	2,109,156.10
\$250,000 to \$500,000..	2,334,582.95	3,328,423.78	993,840.83
Exceeding \$500,000 ..	3,437,850.23	6,439,004.54	3,001,154.31
Accepted offers in compromise, etc. ....	13,698.89	63,645.59	49,946.70
	\$28,253,534.85	\$41,046,162.09	\$12,792,627.24

The total number of taxable incomes reported in the fiscal year 1915 was 357,515, against 357,598 in the fiscal year 1914.

The report of the Commissioner for Internal Revenue, from which the above figures are taken, also gives the number of returns for the taxable year 1914, classified as follows:

No. of Returns.	Classification According to Incomes		
82,754	3,000	to	4,000
66,525	4,000	to	5,000
127,448	5,000	to	10,000
34,141	10,000	to	15,000
15,790	15,000	to	20,000
8,672	20,000	to	25,000
5,483	25,000	to	30,000
6,008	30,000	to	40,000
3,185	40,000	to	50,000
3,660	50,000	to	75,000
1,501	75,000	to	100,000
1,189	100,000	to	150,000
406	150,000	to	200,000
233	200,000	to	250,000
130	250,000	to	300,000
147	300,000	to	400,000
69	400,000	to	500,000
114	500,000	to	1,000,000
60	1,000,000	to	and over

357,515

These classifications are irregular and might be misleading if this fact was not observed. Thus a glance might lead to the conclusion that more people had incomes of from \$5,000 to \$10,000 than of any



other size, but if the two classes from \$3,000 to \$5,000 are consolidated the number is larger, although the classification is still much narrower. In fact the number of incomes in each class diminishes quite regularly in the higher classes. The number of incomes ranging from \$3,000 to \$20,000 aggregated 326,658, against 31,857 above \$20,000; 2,348 above \$100,000, and 174 above \$500,000. The 174 people paid more than one-seventh of the total amount realized from the income taxes.

### Dangers of Graduated Taxation.

The chief objection made to the graduated income tax when it was introduced was that it was a system which could be used with dangerous facility to serve all sorts of socialistic schemes for confiscating incomes and dividing up property. Aside from the object of raising the necessary taxes to support the present system of government, a considerable number of people unquestionably favor its constant extension for the above purpose. It is evident that if the functions of government are constantly enlarged, and the increasing costs are thrown upon the large incomes, a transition to the socialistic state will be eventually accomplished, and we may be well on the way toward it before many people comprehend that a revolution is taking place.

Well-intentioned people are led to support this program upon the general theory that these great incomes are too large to be devoted to the pleasure and benefit of the owners, but should be used, or at least divided, for the benefit of the community. They fail to see the vital and fundamental fact that these large incomes are chiefly used for public purposes now. Only a small portion of these incomes is consumed by the owners and their dependents; the larger part is re-invested productively, which means that it is devoted to enlarging and improving the industrial equipment by which the entire community is served. Such investments are the propelling force by which the progress of society is carried forward.

We think of income in terms of money, but the gains of a people from year to year, in an economic sense, are in tangible things, and of two classes. They are either in consumable things which minister directly to comfort and pleasure, or in additions to the equipment for producing these things. Each individual actually withdraws from the total income of the community simply what he consumes or uses upon himself. That which he invests in productive equipment is not devoted to himself. The title may be in him, but the plant is working for the public. All of the benefits of this industrial plant come out in the flow of products, and the real distribution of income is there, and not in the ownership of the equipment.

However miserly and grasping the owners of capital may be, they cannot invest it in industry except for the satisfaction of public wants and when the investment is never withdrawn, and the proceeds are reinvested over and over for the same purpose, it is as truly devoted to public use as though the title was passed to public officials. For what better could public officials do with it?

Indeed, the whole issue comes at last to the question, whether these fortunes, and the incomes which they produce, will be most economically and effectively handled by the men who have made the fortune, or by the changing public officials into whose hands they are proposed to place them.

It is not probable that income taxation will be carried far enough at present to actually reduce anybody's expenditures upon his own personal needs or household; it will simply reduce that portion of his income which is available for productive investment, or, in other words, the portion devoted to public purposes.

This statement is directed against the policy of taxation which prompts a large part of the agitation for increased super-taxes upon large incomes. Taxation to meet the necessary expenses of government, of course, is proper, and the principle that those who can pay without sacrifice should not only pay in proportion to their property holdings but more, when reasonably interpreted, is a sound one. Our entire system of taxation is very unequal upon the poor. The customs duties are levied mainly upon articles consumed by well-to-do people, and the Federal government's internal tax upon articles, although yielding large sums, is upon articles which are not necessities. Local taxes are levied upon real estate. There is no serious objection to a moderately graduated income tax, for the purpose of raising necessary revenues, so long as the distribution of taxation is broad enough to insure a general interest in the proper and economical administration of the government. A government from which all derive benefits and in which all participate should certainly have some degree of support from all, not only as a matter of right but because no proper restraint upon expenditures is otherwise conceivable.

### Cattle Paper.

Mr. Beverly D. Harris, Vice-President of the National City Bank of New York, delivered an address on the 9th ult., before the Kansas Live Stock Association at Wichita, from which a few extracts are given below. The production of beef is one of the most important industries of the country, viewed from the standpoint of either producer or consumer, and Mr. Harris, from his long experience as a banker in Texas, is thoroughly familiar with the phase of it. He said in part:

For the last two years the country as a whole has been blessed with large crops of feed and forage, abundant stock water, and exceptionally good average conditions of all sorts. There had been declining production and increasing consumption for a number of years and after the first shock of the war the indications that this country would soon enter into a period of prosperity and greatly enlarged domestic consumption, and would be called heavily from abroad to supply the requirements of Europe—forecasting high prices—were a perfectly natural result of widespread stocking up, and it was very opposite to a time when such large quantities of feed and forage were being produced. The demand for stock cattle for breeding purposes; for canners to supply the European armies; for cattle exported on the hoof, and finished for domestic and export consumption, have under the natural laws of demand and supply, put up prices very high. During the past year money has been in great abundance and at average lower rates than ever before in our history. In fact multiplied millions of dollars



commercial loaning have accumulated to the point they could not be profitably employed. These extraordinary money conditions have brought about an untended demand for cattle paper, and in many cases institutions which had not been accustomed to buy with little practical information or discrimination purchase of such loans. \* \* \*

It has been said that as the average price of beef cattle has more than doubled in the last seven years, it has paid twice as much money to finance the business. At the present time this is apparently an understatement of the real facts. It seems to be the consensus of opinion among well informed authorities, that under the influence of the easy conditions which I have described, too many men with little or no financial or other responsibility are encouraged by the loan of funds representing practically the purchase price, to buy cattle at the present high price, creating a large volume of credits of an inflated and very insecure foundations.

It is well known that with the high prices which have ruled, feeding for the market has not turned out as well in a very large number of instances, and there has not been the proper parity between the raw and finished product.

It is felt that the multiplication of cattle companies and the increased competition for business is making credit too tight, reducing margins of safety and promoting speculation. Too much speculative buying is forcing the averages up to a point that may be dangerous.

As to feeder loans, where the borrower has succeeded in putting the cattle on full feed for a period of six months, the practice, as you know, is pretty well to lend in many cases practically the purchase price of the cattle, regarding the feed as the margin, as a full feed will gain from 1½ to 2½ pounds a day and will be finished for market on an average within six months. A thousand pound steer, let us say, would weigh around 1,200 pounds when ready for market, the difference in weight furnishing a very respectable margin. The borrower has no other margin in the transaction and is not able to make a statement indicating ample responsibility to fully protect all parties concerned.

\* In this connection I am pleased to see that the companies in the line of improved methods of management are requiring their borrowers to sign statements of their holdings and liabilities in forms furnished and required by the Federal Reserve Banks. By all means I hope to see this practice become general, not only because it will help the sale of paper in making it eligible for rediscount with the Reserve Banks, in case of need, but for the still more important reason that it is one of the best safeguards that can be thrown around the business. In practical commercial lines statements are invariably required as a basis of credit, and properly so. The live stock is perishable and subject to loss or depreciation in value. A borrower who is not willing to make a statement of his affairs in seeking credit in the cattle business is not entitled to any more consideration in this than a borrower in any other line of business \* \* \*

As to stockers, as we all know, are now extremely popular. The following opinion of one of the recognized authorities in the cattle loan business is shared by many: "The prevalent view is that cattle are being held at too high prices. This refers particularly to cows and calves. In the present market under the present prices of beef the calf, six to ten months old, should be sold for about the time it is a year old at from \$20 to \$25 a head, whereas the price is now \$30 to \$35 per head."

The purchase of cattle paper in the large Eastern money market is usually through cattle loan companies or banks, which take the loans and give their endorsements in connection with them. It is not often practicable to make direct loans, as they would involve too much loss of time, expense and the necessity of making investigations, to be practicable or satisfactory.

The purchasers naturally prefer some inter-est in the life of the loan, and handle it in case of trouble. The availability of the paper is based on the following conditions:

1. The financial responsibility and the strength of the connections, supporting the institution selling the paper, and the ability, experience and integrity and safe policies of the individuals concerned in its management. The knowledge that they make careful and thorough inspections and look closely after the security throughout the life of the loan.

2. The character and responsibility, financial and moral, of the borrower. In the cattle business, as in every other, integrity and the moral risk are the first consideration. To quote from Mr. Hollings of the Inter-State National, Kansas City—"The brand on the man is more important than the brand on the cattle."

3. The character of the security, amount of margin, location, arrangements for feed, water and handling; transportation facilities; protection from weather and disease.

4. Liquidity. Loans which will be naturally liquidated within short time by movement of the cattle to market—grown steers in feed lots preferred. Stocker loans are oftentimes very safe and desirable, but this class of paper as a rule is slower in liquidating.

5. Loans on range cattle, calves and young stock are usually subject to more hazards than other loans. All conditions surrounding loans of this character should be looked into very carefully, with regard to safety.

6. The cattle mortgage laws of different states vary very materially in their provisions. They should be studied carefully and thoroughly understood. The original or certified copy of the mortgage should accompany the loan, showing filing and that all legal requirements have been complied with.

7. It is very important that all the stock mortgaged should have distinctive brands, and the location clearly designated, recorded in the mortgage, by which the cattle can at any time be immediately identified. The cattle should be in pastures enclosed with fences, and the mortgage should cover all cattle of any certain brand, or be a blanket mortgage covering all cattle of all brands belonging to the borrower. It is very unsafe to have mortgages held by different lenders on cattle of the same brand, running in the same pastures.

8. Many purchasers will not buy split loans. This is a matter requiring expert judgment and knowledge of conditions, as under some circumstances serious complications may arise.

9. Renewals should be taken with careful attention to the laws of various states and with a full understanding of the circumstances warranting the renewal, and that the security is not being impaired or dissipated.

10. Loans on equities or undivided interests are undesirable.

Observing these tests in the selection, it has been my experience over a long period of time with various institutions, that there is no more desirable paper than cattle paper of the right sort. It can be liquidated in times of panic and tense money markets, affording relief when liquidation in many other lines is tied up. In times of financial crises the packing house and livestock interests are invaluable to the country, and afford quick relief through liquidation, and the bankers of the country should always bear this in mind and extend them all legitimate financial support to which they are entitled.

### Condition of British Banks.

The London papers received recently give the statements published by the British joint stock banks showing their condition at the close of the year 1915. The aggregates for the principal items of twenty-nine London and provincial institutions, including the leading ones of the United Kingdom, are given below, and also the figures for the same items at the close of 1914 and before the war.

	June 30, 1914	Dec. 31, 1914	Dec. 31, 1915
Deposits .....	\$4,220,000,000	\$4,600,000,000	\$4,985,000,000
Cash in hand and at Bank of England .	650,000,000	965,000,000	950,000,000
At Call and Short Notice.	530,000,000	425,000,000	357,000,000



Investments ...	740,000,000	845,000,000	1,655,000,000
Discounts and Advances ...	2,655,000,000	2,725,000,000	2,405,000,000

The most notable change shown is in the increase of investments, which since June 30, 1914, is about \$900,000,000, and represents subscriptions to the war loans. This was to be expected, but the surprising feature of the statement is the reduction shown in the loan items. Money at call and short notice and the discounts and advances all show smaller figures than before the war. It was to be expected that with the great pressure upon the public to subscribe for the government loans, there would have been considerable borrowing at the banks for that purpose, but whatever there is of this does not equal the reduction in loans for business purposes. It will be remembered that the Bank of England at the outbreak of the war, took over from the joint stock banks a large amount of bills which could not be collected on account of war conditions; this action reduced their holdings of bills and at the same time increased their deposits. Their deposits also show an increase of \$385,000,000 in the past year. The figures all reflect the fact that Great Britain to a great extent has financed the war by withdrawing investments from other countries.

In order to include the entire banking situation, the figures for the principal items of The Bank of England, and for the Treasury Exchequer notes for the same dates, are given below:

	July 29 1914	Dec. 30 1914	Dec. 29 1915
Gold .....	\$183,357,029	\$349,480,325	\$256,692,150
Deposits .....	335,660,625	764,323,450	808,299,370
Gov't Securities.....	55,025,630	74,027,645	164,200,080
Other Securities.....	236,537,650	516,469,215	560,378,550
Exchequer Notes.....		102,390,820	515,625,495
Gold (for exchequer notes) .....		92,500,000	142,500,000

## Canadian Affairs.

In the annual budget speech of Sir Thomas White, Minister of Finance of Canada, delivered in Parliament a few days ago, he stated that the expenditures of the Dominion to January 1916, on account of the war had amounted to \$158,000,000, and that \$150,000,000 had been borrowed on this account. With 250,000 troops now enlisted and 500,000 enlistments authorized, he estimated that \$250,000,000 would be required to finance the war during the fiscal year beginning April 1st. He stated that the war taxes imposed a year ago, which were calculated to yield \$150,000,000, have in fact yielded \$170,000,000. New war taxes, calculated to yield \$25,000,000 to \$30,000,000 are proposed, the noteworthy feature of these being levies upon business profits. Incorporated companies, except life insurance companies and those engaged in agriculture, are to be taxed one-fourth of their net profits in excess of 7 per cent on their capital, and individuals and partnerships one-fourth of their profits in excess of 10 per cent on their capital. These taxes will not apply to firms or companies of less than \$50,000 capital unless they are manufacturing munitions.

The Dominion has a revenue surplus for the year now closing of about \$45,000,000, and with the new taxes proposed it is going a long way toward

financing the war out of current revenues, with a very courageous and statesmanlike policy. Treasury is carrying a gold reserve against Dominion currency issues of \$115,000,000 or 10 per cent of the currency outstanding, and the Minister pledges that there will be no resort to issues of unsecured paper.

The foreign trade situation has shown a remarkable reversal. For the calendar year 1913 there was an adverse balance of \$198,500,000; for 1914 there was an adverse balance of \$70,300,000, and in 1915 there was a favorable balance of \$201,700,000.

The big 1915 wheat crop and the manufacture of war supplies are responsible for this change. The trade balance is sufficient to take care of a year's Canadian payments on interest accounts in London, with perhaps \$50,000,000 over, so that at home and abroad Canada's finances are in a favorable shape.

The Canadian Bank of Commerce estimates that 40 per cent. of the grain crop is still in the farmer's hands. There is now full employment for the laboring classes, and trade and financial conditions are good. The returns from 46 Canadian cities show building permits in 1915 amounting to \$34,500,000 as against \$97,600,000 in 1914. The Canadian government is continuing work upon the Quebec bridge, the Panama Canal, the Hudson Bay railway, and terminal and port works of considerable importance.

## Report of Federal Reserve Board.

The second annual report of the Federal Reserve Board is in fact its first report covering one year. It reviews a year devoted to the formulation of policy, and we have already from time to time indicated that in our opinion the Board was proceeding wisely and laying good foundations. The report states that the member banks have done but little business, and this fact expresses a sensible opinion when it says that, "the attempt of the Federal Reserve Banks to do a business by further reduction of their rates has not only have produced a further depression of business and increased the danger of inflation of credit, but, at the same time, bringing additional business to the Federal Reserve Banks."

The Board indicates that the reserve banks should not wait for business to come to them from the member banks, and that they will enter the market freely. "When prevailing money rates harden, as they may be expected to in time, it will be the policy of the Board to encourage the Federal Reserve Banks, through the active purchase of government paper and the increase of investments, to raise funds, and thereby steady rates at what it considers to be the normal level."

The Board refers to some of the discussion which occurred last year as to the propriety of discounting government paper which might arise out of purchases by different powers in this market, and states that it "reached the conclusion, supported by competent legal advice, that the purpose for which such goods are sold or exported, or the use to which such goods are ultimately put, does not fall within its provincial jurisdiction. If the transactions which have given rise to such sales or shipments are of a true



# STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS FEBRUARY 25, 1916. (In Thousands of Dollars)

SOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlant	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
and certifi's. Set- and Cr. Balances	13,259	160,218	6,876	11,168	4,678	5,631	33,208	5,281	3,198	8,225	4,022	6,727	262,491
ment Fund.....	3,344	6,499	6,289	11,183	10,580	5,776	10,769	2,621	4,049	2,575	9,501	3,239	76,435
emption Fund....	3	236	50		320	319	200	1	30	98	245	10	1,512
al gold reserves..	16,606	136,953	13,215	22,361	15,578	11,726	44,177	7,903	7,277	10,898	13,768	9,976	340,438
nder notes. Silver	133	7,657	4,812	1,387	119	125	1,665	304	453	183	835	5	17,678
al and Sub. coin....	16,739	174,610	18,027	23,748	15,697	11,851	45,842	8,207	7,730	11,081	14,603	9,981	358,116
al Reserves.....													
ounted, Members	163	167	199	217	6,646	4,482	1,984	802	915	2,070	4,741	421	22,827
ial paper.....	8,654	12,556	1,544	1,009	175	360	1,955	725	539	527	50	960	29,054
ht in open market													
al.....	8,837	12,723	1,743	1,226	6,821	4,842	3,939	1,527	1,454	2,597	4,791	1,381	51,881 (c)
nt U. S. Bonds....	986		3,465	3,621	1,283	43	6,252	3,399	1,797	4,513	1,295	3,035	29,632
l Warrants.....	3,461	9,629	2,989	3,115	83		2,587	698	992	470		1,469	25,403
al Earning Assets	13,294	22,352	8,197	7,962	8,190	4,885	12,778	5,564	4,153	7,580	6,086	5,885	106,916
Reserve Notes, net	1,124	13,230	135	563			1,806	386	976			5,573	23,793
other F.R. Banks	2,977		5,143	684	1,923	571	4,394	1,529	4,445	1,370		1,290	13,274 (b)
resources.....	169	3,941	169	340	59	1,094	546	4,258	119	258	289	159	11,401
RESOURCES.....	34,293	214,133	31,671	33,297	25,869	18,401	65,366	19,944	17,423	20,289	20,978	22,888	513,500
LIABILITIES													
aid in.....	5,158	11,092	5,257	5,945	3,341	2,416	6,652	2,786	2,555	2,999	2,752	3,944	54,897
ent Deposits.....	977	7,936	302	674	6,500	6,164	700	2,282	412	306	5,180	1,068	32,501
Deposits, net.....	28,158	184,817	26,112	26,678	11,330	8,358	58,014	14,878	14,456	15,867	10,024	17,876	416,566
Reserve notes in ion - Net Amt....					4,653	1,358				1,117	2,258		9,386 (a)
ther F. R. Banks		10,288									764		
Liabilities.....					45	105							150
LIABILITIES.....	34,293	214,133	31,671	33,297	25,869	18,401	65,366	19,944	17,423	20,289	20,978	22,888	513,500

Total Reserve notes in circulation, 171,368.

After deduction of items in transit between Federal Reserve Banks, 13,274, the Gold Reserve against Net Liabilities is 76.5% and the cash reserve is 80.4%. Cash Reserve against liabilities after setting aside 40% Gold Reserve against net amount of Federal Reserve Notes in circulation, 81.3%.

Maturities of bills discounted and loans: within 10 days, 7,477; to 30 days, 11,750; to 60 days, 16,758; other maturities, 15,896; Total: 1,881.

nature, if the basis upon which they rest is to comply with the requirements of the Reserve Act, and if the maturity of the bills within the limitation of the law, then the growing out of them, no matter by whom or at drawn, may at will be discounted by Federal Reserve Banks, and must be regarded as falling the legitimate sphere of their operations."

noteworthy, as pertinent to the entire subject financing our exports, whether by use of the Reserve System or otherwise, that the Board should make this declaration:

Board, however, believes that the financing of the export trade is at the present time one of the important financial problems with which the nation deal; and it is of the opinion that Federal Reserve act not, even if they would, avoid the responsibility in this process of financing what legitimate and properly devolves upon them."

Board admits that not much progress has been made in establishing the clearance system for which is the difficult problem with which it deal. It is firm in its purpose, however, to declare that the reserve balances to be carried in the Federal Reserve banks instead of the corresponding banks should perform the work of clearing and collecting the exchanges of the country. Amendments are recommended as follows:

National banks should be permitted to subscribe and hold stock in banks organized to do business in foreign countries.

Permission should be given for the issue of Federal Reserve notes direct to Federal Reserve

banks for gold, the gold however, to still count as a part of the reserve which the bank is required to maintain against notes. This is a rather awkward proposition, made necessary by the fact that the Federal Reserve Banks do not issue their own, but government notes.

(3) The acceptance privilege should be extended to include domestic transactions secured by shipping documents or warehouse receipts.

(4) Permission should be granted to national banks to establish branch offices within the city, or within the county in which they are located.

(5) In order to enable member banks to readily acquire short accommodation, the reserve banks should be authorized to make advances for periods not exceeding 15 days, upon their promissory notes, secured by any collateral which could be rediscounted under the Federal Reserve Act, or upon government bonds.

(6) Certain further concessions to banks outside of central reserve cities are recommended in the matter of real estate loans, provided such loans do not exceed 25 per cent. of capital and surplus, or one-third of its time deposits.

## Discount Rates.

Discount rates of each Federal Reserve Bank in effect Feb. 28th, 1916, are the same as those of Jan. 29th, 1916—excepting the Boston rate on Trade Acceptances has been reduced from 3½% to 3%; and the San Francisco rate on Agricultural and Live Stock Paper has been reduced from 6% to 5½%.





1916

## U. S. SECURITIES GOVERNMENT FINANCE ECONOMIC AND FINANCIAL CONDITIONS

NEW YORK, APRIL,

### War and Peace Prospects.

**T**HE despatch of United States troops into Mexico in pursuit of Villa and his band has created another acute situation in our relations with that country. Villa's murderous attack upon the town of Columbus is best explained as a desperate attempt to provoke intervention by the United States in hopes that the situation resulting would be more favorable to him. The masses of the Mexican people may be easily deceived as to the purposes for which United States soldiers are in their country, and there are various factions in Mexico which would be pleased to have more trouble develop for Carranza, whatever the pretext. Hopes for a restoration of order and industry in Mexico have been so often dashed, that it is impossible to presume that when one troublesome factor is eliminated, others will not arise. A few months ago, there was prospect for a good revival of trade with that country, but the last alarm has caused a more general exodus of Americans from the interior districts than any previous one.

During the past month another European state has been involved in the war, Portugal, by the seizure of German merchant ships in her harbors, having provoked a formal declaration by Germany. The Portuguese government has stated that its action was taken in response to a call upon it by the British government, in pursuance of the terms of a long-standing treaty.

Rumors of peace negotiations are to be expected with increasing frequency as the war wears on, but as yet there seems to be little reason to believe that the belligerent governments could meet with probability of reaching an agreement. The Allies would entertain no proposal based upon the present occupation of territory by the German armies, as they hold that their command of the sea is of more importance, as affecting the final outcome of the war, than the German successes on land. It is improbable that either side would be satisfied to end the war now in a draw. Russia is expectant of substantial results from its advance on Constantinople through Asia, and if the events of the coming summer on the western front should be favorable to the Allies, the great coal and iron deposits of Lorraine would probably become the chief prize of the contest. The conditions are not favorable to early peace.

### Sinews of War.

The belligerent governments are all busy plans for raising money, both by taxation and loans. There has been no large British loan since last June and the proceeds of the exhausted some months ago. Since then the treasury has been supplying its needs by the sale of year Exchequer bonds and Treasury bills of 3, 6, 9 and 12 months, the bills being the main source. The amount of these outstanding bills, 1st, was a little above \$2,000,000,000. Three months bills now draw  $4\frac{1}{2}$  per cent., six and nine months bills  $4\frac{3}{4}$  per cent., and twelve months bills 5 per cent. The British fiscal year ends March 31, the total government expenditures for the year just closed, including the civil establishment and war to Allies, is nearly, if not, quite \$8,000,000,000, of this approximately \$2,000,000,000 was accounted to the country's colonies and Allies. It is supposed that a new internal loan will be brought out soon, long, probably at five per cent.

The British government has acquired £1,000,000,000 from the British public, in exchange for its own five year five per cent. Exchequer bonds. The large amount of American securities with which it will be able to finance its purchases in this country and support the exchange rate. The amount of securities so obtained is unknown, but the success of the plan is said to have exceeded expectations of its promoters.

The revenues of the British government from the war taxes are very large. The peace revenues were about \$1,000,000,000 per year, but for the year just closed the total income from taxation has been about \$1,700,000,000, and for the coming year is expected to reach \$2,200,000,000, not counting taxes which may be levied. The excess produced has scarcely begun to show results, and the proceeds of this may carry the income above the estimates.

The cessation of gold exports to the United States has enabled the Bank of England to accumulate about \$20,000,000 of gold since January 1st, at approximately \$275,000,000 the stock is about \$6,000,000 below what it was a year ago, withstanding the large exports to the United States and elsewhere during that time. The great production of gold within the British Empire is well at this time. The closing of the diamond mines in Africa has given a larger supply of

Those desiring this circular sent to them regularly will receive it without charge upon application.



# STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL

RESERVE BANKS AT THE CLOSE OF BUSINESS FEBRUARY 25, 1916.

(In Thousands of Dollars)

SOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
and certifs. Set-	13,259	160,218	6,876	11,168	4,678	5,631	33,208	5,281	3,198	3,225	4,022	6,727	262,491
fund. Cr. Balances	3,344	6,499	6,269	11,193	10,580	5,776	10,769	2,621	4,049	2,575	9,501	3,239	76,435
temption Fund...	3	236	50		320	319	200	1	30	93	245	10	1,512
tal gold reserves..	16,806	136,953	13,215	22,361	15,578	11,726	44,177	7,903	7,277	10,898	13,768	9,976	340,438
nder notes. Silver	133	7,657	4,812	1,387	119	125	1,665	304	453	183	895	5	17,678
and Sub. coin....	16,739	174,610	18,027	23,748	15,697	11,851	45,842	8,207	7,730	11,081	14,663	9,981	358,116
tal Reserves.....													
ounted, Members	183	167	199	217	6,646	4,482	1,984	802	915	2,070	4,741	421	22,827
cial paper .....	8,654	12,556	1,544	1,009	175	360	1,955	725	539	527	50	960	29,054
ght in open market	8,837	12,723	1,743	1,226	6,821	4,842	3,939	1,527	1,454	2,597	4,791	1,381	51,881 (c)
ent U. S. Bonds...	985		3,465	3,621	1,283	43	6,252	3,339	1,797	4,513	1,295	3,035	29,632
al Warrants.....	3,461	9,629	2,989	3,115	83		2,587	698	902	470		1,469	25,403
tal Earning Assets	13,294	22,352	8,197	7,962	8,190	4,885	12,778	5,564	4,153	7,580	6,086	5,885	106,916
Reserve Notes, net	1,124	13,230	135	563			1,806	386	976			5,573	23,793
o other F.R. Banks	2,977		5,143	684	1,923	571	4,394	1,529	4,445	1,370		1,290	13,274 (b)
Resources.....	169	3,941	169	340	59	1,094	546	4,258	119	253	289	159	11,401
RESOURCES.....	34,293	214,133	31,671	33,297	25,869	18,401	65,366	19,944	17,423	20,289	20,978	22,888	513,500
LIABILITIES													
Paid in.....	5,158	11,092	5,257	5,945	3,341	2,416	6,652	2,786	2,555	2,999	2,752	3,944	54,897
ient Deposits.....	977	7,936	302	674	6,500	6,164	700	2,282	412	306	5,180	1,068	32,501
Deposits, net....	28,158	184,817	26,112	26,678	11,330	8,358	58,014	14,876	14,456	15,867	10,024	17,876	416,566
Reserve notes in					4,653	1,358				1,117	2,258		9,386 (a)
tion - Net Amt....													
o other F. R. Banks		10,288									764		
Liabilities.....				45	105								150
LIABILITIES....	34,293	214,133	31,671	33,297	25,869	18,401	65,366	19,944	17,423	20,289	20,978	22,888	513,500

Total Reserve notes in circulation, 171,368.

After deduction of items in transit between Federal Reserve Banks, 13,274, the Gold Reserve against Net Liabilities is 76.5% and the cash reserve is 80.4%. Cash Reserve against liabilities after setting aside 40% Gold Reserve against net amount of Federal Reserve Notes in circulation, 81.3%.

Maturities of bills discounted and loans: within 10 days, 7,477; to 30 days, 11,750; to 60 days, 16,758; other maturities, 15,896; Total: 51,881.

nature, if the basis upon which they rest is to comply with the requirements of the Federal Reserve Act, and if the maturity of the bills within the limitation of the law, then the growing out of them, no matter by whom or at drawn, may at will be discounted by Federal Reserve Banks, and must be regarded as falling within the legitimate sphere of their operations."

noteworthy, as pertinent to the entire subject of financing our exports, whether by use of the Federal Reserve System or otherwise, that the Board should make this declaration:

Board, however, believes that the financing of the export trade is at the present time one of the important financial problems with which the nation is dealing; and it is of the opinion that Federal Reserve banks can not, even if they would, avoid the responsibility of assisting in this process of financing what legitimately devolves upon them."

Board admits that not much progress has been made in establishing the clearance system for which is the difficult problem with which it is dealing. It is firm in its purpose, however, to see that the reserve balances to be carried in the Federal Reserve banks instead of the correspondent banks should perform the work of clearing and collecting the exchanges of the country. Amendments are recommended as follows:

National banks should be permitted to subscribe and hold stock in banks organized to do business in foreign countries.

Permission should be given for the issue of Federal Reserve notes direct to Federal Reserve

banks for gold, the gold however, to still count as a part of the reserve which the bank is required to maintain against notes. This is a rather awkward proposition, made necessary by the fact that the Federal Reserve Banks do not issue their own, but issue government notes.

(3) The acceptance privilege should be extended to include domestic transactions secured by shipping documents or warehouse receipts.

(4) Permission should be granted to national banks to establish branch offices within the city, or within the county in which they are located.

(5) In order to enable member banks to readily acquire short accommodation, the reserve banks should be authorized to make advances for periods not exceeding 15 days, upon their promissory notes, secured by any collateral which could be rediscounted under the Federal Reserve Act, or upon government bonds.

(6) Certain further concessions to banks outside of central reserve cities are recommended in the matter of real estate loans, provided such loans do not exceed 25 per cent. of capital and surplus, or one-third of its time deposits.

## Discount Rates.

Discount rates of each Federal Reserve Bank in effect Feb. 28th, 1916, are the same as those of Jan. 29th, 1916—excepting the Boston rate on Trade Acceptances has been reduced from 3½% to 3%; and the San Francisco rate on Agricultural and Live Stock Paper has been reduced from 6% to 5½%.





1918

## U. S. SECURITIES GOVERNMENT FINANCE ECONOMIC AND FINANCIAL CONDITIONS

NEW YORK, APRIL,

### War and Peace Prospects.

**T**HE despatch of United States troops into Mexico in pursuit of Villa and his band has created another acute situation in our relations with that country. Villa's murderous attack upon the town of Columbus is best explained as a desperate attempt to provoke intervention by the United States in hopes that the situation resulting would be more favorable to him. The masses of the Mexican people may be easily deceived as to the purposes for which United States soldiers are in their country, and there are various factions in Mexico which would be pleased to have more trouble develop for Carranza, whatever the pretext. Hopes for a restoration of order and industry in Mexico have been so often dashed, that it is impossible to presume that when one troublesome factor is eliminated, others will not arise. A few months ago, there was prospect for a good revival of trade with that country, but the last alarm has caused a more general exodus of Americans from the interior districts than any previous one.

During the past month another European state has been involved in the war, Portugal, by the seizure of German merchant ships in her harbors, having provoked a formal declaration by Germany. The Portuguese government has stated that its action was taken in response to a call upon it by the British government, in pursuance of the terms of a long-standing treaty.

Rumors of peace negotiations are to be expected with increasing frequency as the war wears on, but as yet there seems to be little reason to believe that the belligerent governments could meet with probability of reaching an agreement. The Allies would entertain no proposal based upon the present occupation of territory by the German armies, as they hold that their command of the sea is of more importance, as affecting the final outcome of the war, than the German successes on land. It is improbable that either side would be satisfied to end the war now in a draw. Russia is expectant of substantial results from its advance on Constantinople through Asia, and if the events of the coming summer on the western front should be favorable to the Allies, the great coal and iron deposits of Lorraine would probably become the chief prize of the contest. The conditions are not favorable to early peace.

### Sinews of War.

The belligerent governments are all busied with plans for raising money, both by taxation and loans. There has been no large British loan since last June and the proceeds of the last exhausted some months ago. Since then the Treasury has been supplying its needs by the sale of year Exchequer bonds and Treasury bills for 3, 6, 9 and 12 months, the bills being the main source. The amount of these outstanding bills, as of March 31st, was a little above \$2,000,000,000. Three months bills now draw  $4\frac{1}{2}$  per cent., six and nine months bills  $4\frac{3}{4}$  per cent., and twelve months bills 5 per cent. The British fiscal year ends March 31st. The total government expenditures for the year just closed, including the civil establishment and the cost of the war to Allies, is nearly, if not, quite \$8,000,000,000. Of this approximately \$2,000,000,000 was added to the country's colonies and Allies. It is surmised that a new internal loan will be brought out soon, probably at five per cent.

The British government has acquired the right to purchase from the British public, in exchange for its own five year five per cent. Exchequer bonds, a large amount of American securities with which it will be able to finance its purchases in this country and support the exchange rate. The amount of securities so obtained is unknown, but the success of the plan is said to have exceeded the expectations of its promoters.

The revenues of the British government from the war taxes are very large. The peace revenues were about \$1,000,000,000 per year, but for the year just closed the total income from taxation had reached about \$1,700,000,000, and for the coming year is expected to reach \$2,200,000,000, not counting the excess taxes which may be levied. The excess profits from the war have scarcely begun to show results, and the proceeds of this may carry the income above the estimates.

The cessation of gold exports to the United States has enabled the Bank of England to accumulate about \$20,000,000 of gold since January 1st. The stock at approximately \$275,000,000 the stock is about \$6,000,000 below what it was a year ago, notwithstanding the large exports to the United States and elsewhere during that time. The great production of gold within the British Empire is still well at this time. The closing of the diamond mines in Africa has given a larger supply of

Those desiring this circular sent to them regularly will receive it without charge upon application.



gold mines, and the African production is the rate of about \$200,000,000 per year. Canadian production rose last year to \$18,000,000, and the total output in the British possessions to \$300,000,000. The Bank of England reserves now about 28 per cent., and the reserve Exchequer notes about the same. Its public-private loans are considerably less than a year ago, owing to the large payments upon premium paper.

German government has closed the books on the first loan, and subscriptions are officially reported to be in excess of 10,600,000,000 marks, or 2,600,000,000. The third loan, brought out last year, realized about \$3,000,000,000, and the Secretary of the Treasury announces that the total subscriptions for all the war loans aggregate 36,300,000,000 marks, or about \$9,000,000,000. In the previous annual budget, with certain proposals for new taxes to the Reichstag, a few days ago, he estimated that the war expenditures in December exceeded 2,000,000,000 marks, about \$500,000,000, but since then have been running lower, and now were about 1,500,000,000 marks, or about \$375,000,000, less than a year ago. He estimated that the new taxes would bring in 10,000,000,000 marks. The gold reserve of the Reichsbank is 20 per cent. of its note circulation and 30 per cent. of its deposits. The note circulation is about \$400,000,000 above a year ago, and the deposits about the same.

France has resumed the sale of 5 per cent. bonds, suspended since November last. The Ministry of Finance states that the war expenditures in 1915 were 22,000,000,000 francs, or approximately \$4,400,000,000, and the total military expenditures since the war began have been 37,000,000,000 francs, or about \$7,400,000,000. For the first quarter of 1916 the estimate calls for \$1,000,000 per day. The Bank of France maintains its gold holdings at about \$1,000,000,000, or about \$150,000,000 larger than a year ago, and is standing several large shipments to the Bank of England in the meantime. Its note circulation is \$700,000,000 higher than a year ago, the ratio of reserve to circulation 33 1/3 per cent. Its holdings of promissory bills have declined nearly one-half since a year ago, but its advances to the State on account of the war are \$1,000,000,000 in a year and now stand at about \$1,000,000,000.

Borrowings of Russia from the beginning of the war to January 1, 1916, were a little above \$1,000,000,000, and the war expenditures are now at the rate of about \$500,000,000 per month. The reserve of the Bank of Russia has been increased from the circulation and by the product of the war to about \$1,180,000,000, or about 40 per cent. of the outstanding note circulation and 32 per cent. of the deposits.

## Economy.

The British government is moving by cautious steps to put into effect the much-talked-of measures for reducing the importation of luxuries and non-

essential goods. The government is evidently embarrassed by its wish not to legislate against the products of its Allies, for it receives luxuries chiefly from France. Most of its importations from other parts of the world are of food and materials required by its industries, which cannot be dispensed with. The imports from the United States are mainly of this character.

It is particularly desirable to reduce the consumption of imported goods, for two reasons: 1st, the adverse trade balance must be settled in gold or securities, and is troublesome; and, 2nd, there is a scarcity of shipping, which increases the cost of all necessities. The British officials, however, lay scarcely less emphasis upon the necessity for reducing the consumption of home-made goods, in order that prices may be held down, that current income may be more largely diverted to the government loans, and that labor may be released for the war industries and for enlistments. Upon this eminently practical point, the public appears to be very obtuse. The withdrawal of men from the industries reduces the output of goods, and the only way to meet a necessary reduction of supply is by reducing consumption. The natural remedy is a rise of prices, which under ordinary conditions either brings out a larger supply or goes far enough to curtail the demand. But in this case the British government does not want a larger supply of the non-essentials, and, unfortunately, the British public does not see the necessity of reducing consumption. Instead of doing so, it clamors for higher wages, and higher prices all around, so that it may continue to pay the higher prices. But this is like a cat chasing its own tail; higher prices cannot make a short supply go around. The only effect is to raise the entire level of costs upon which the people live and business is done and the war is carried on, and compel increased borrowings by the government. Mr. Montague, Financial Secretary to the Treasury, has recently discussed this subject as follows, in the House of Commons:

There seemed to be an opinion that these huge deficits could be found out of the accumulated wealth of the country. But they could not tax capital which could not be realized, and much accumulated wealth was in forms which could not be converted except in so far as the property represented by it could be sold to foreign purchasers. It would be useless to lend it to one another. Some people believed that nothing was easier than for rich men to borrow money from their bankers and then lend it to the Government. Obviously that was of no avail unless people took measures to repay the loans to their bankers at least as rapidly as the Government spent the money. If they did not take that course the only effect was that they and their bankers between them produced a certain amount of credit and added to the available supply of currency without making any addition to the available supply of goods and service.

What was wanted was not artificially-created money, but actually produced goods and services which the Government must have for the war, and for which there could be no substitute. Now, as our production of goods and services had been reduced by the flow of our men going to war and the sending of others on to the making of munitions, the situation could only be met if the rest of the community forgo the use of goods and services to which they have been accustomed; so that the labour and energy used in producing them might be turned to the production of goods and services required for the war.

There had been no true appreciation of that as yet.



Those who dispensed luxuries over the counter were doing a roaring trade. The consumption of alcohol had increased, and he was told that the makers of expensive pianos were enjoying a considerably increased demand. There was a tendency to say that whenever taxation was increased they ought, therefore, either to increase profits or remuneration, wages, or whatever it might be.

He thought it absolutely necessary to repeat that the expenditure on the war would have to be borne by the nation almost entirely either in the form of tax or loan. It followed therefore, that, allowing for any loans which could be raised abroad, every citizen ought to be prepared to put at least one-half of his current income at the disposal of the State either in the form of tax or loan.

An answer to the oft-repeated question, "What is inflation?" may be found in the situation above described. In its broad sense inflation means an artificial state of wages, prices and indebtedness which cannot be normally maintained.

### The Money Market.

The time has come when the spring demand for money, if there is to be one, should make itself felt, but there are few signs of it yet. Neither commercial paper offerings nor the demands of customers show any notable increase, and interest rates are practically unchanged. The surplus reserves of the New York Clearing House banks declined from \$175,000,000 on January 29, which was the high point since last summer, to \$127,600,000 on March 25th, but this occurred for the most part in February, the surplus on March 4th being down to \$134,700,000. Loans declined from \$3,376,500,000 on March 4th to \$3,360,532,000 on March 25th, and demand deposits increased from \$3,340,000,000 to \$3,396,800,000. Since January 29th the net increase in loans has been \$81,900,000 and of deposits \$28,000,000, while cash reserves have decreased \$45,900,000. The loss of surplus reserve, therefore, has been due, in the main, to loss of cash rather than to expansion of liabilities. The direct movements of cash between the banks and their out-of-town correspondents have about balanced, but there have been losses to the Federal Reserve bank and to the Sub-Treasury. The revenues of the government are increasing, and from February 1st to March 27th the net debits of the Clearing House to the Sub-Treasury amounted to \$32,911,725.

Under the circumstances there is little significance in the loss of reserve, but it is easy to see that under anything like a general call from the country for money, the condition of apparent plethora would change very quickly. The reports of large reserves throughout the country when analyzed usually mean that there are large balances in New York, which may be drawn upon at will, and it is against these balances that New York holds \$127,600,000. The figures for the bank statement of March 7th are not generally available, but on December 31st, the reserves of the national banks of the two Western Central Reserve cities, in cash and in the Federal Reserve banks, were respectively, Chicago 20.37, and St. Louis 19.93. At the same date the average reserve in vault of all the other reserve cities was 7.72, and in the Federal Reserve banks 4.09, and the average reserve of all country banks in vault was 6.68, and in Federal Reserve

banks 3.16. So far as figures of the March statement have been received, they show increase in both loans and deposits, and if this goes on may be expected with general business kept up at the present rate, it is probable that more money will be wanted from New York. A moderate movement of this kind would effect a considerable change in interest rates.

The proceeds of the Anglo-French loan are entirely exhausted, and no announcement has been made as to the next offering in this market. The one-year notes to the amount of about \$30,000,000 placed here last year, are due April 1st, and are being paid. This is the second lot of French notes to be paid off in this market during the war, the first lot being for \$10,000,000. The sale of American securities by British and French owners for payment of account has been proceeding, and of course when these are replaced with their own government securities, the credits thus created are available for the government payments here.

Individuals who are interested in higher rates for stocks and bonds would prefer to have the British Treasury meet its needs here by borrowing on the securities it has been acquiring, but it is evident that the general financial situation in this country will be best served by having them pay outright, as fast as it can be done without disturbing the market. A loan will go into comparison with the few hands, and probably remain in the banks, but it will encumber the situation. The credits created by loans will enlarge the volume of deposits, which require more reserve money, while if the securities are bought by investors and paid for out of deposits, no additional liabilities are created. Even if investors borrow for the purpose of making the purchase, there is advantage in having them contribute to the absorption of the securities.

It is more than likely that a temporary loan will be necessary to the judicious handling of the government-owned securities, and of course the securities loaned to the government are intended to be utilized in this manner. Negotiations have been pending for some time over a Russian loan, and a French loan is also under discussion. With the trade balance in favor of this country which has been rolled up in the first quarter of 1916, it is as though our foreign loans would have a greater this year than last if the trade balance is maintained. To the extent that they can be paid up with the accruing profits of the year, they will be no burden, but they loom up large in any consideration of the future of the money market.

### Bond and Stock Market for March.

The most prominent feature of the bond market in March was the successful offering of \$100,000,000 Government of the Dominion of Canada 5% Gold Bonds. One-third of the issue is being used for refunding purposes. The bonds were offered in 5, 10 and 15-year maturities of \$100,000 each, yielding from 5.10% to 5.50%. Supported by large crops sold at high prices, and by profits from war business, the credit of the Canadian Government is very well maintained.



of the visible balance of trade in favor of a has more than offset the interest on the issued to take care of the Dominion's part European War.

During the month a syndicate was formed to write an offering of \$40,180,000 Chesapeake & Ohio Railway 30-year 5% Convertible Gold Bonds, which will be secured by \$45,920,000 Chesapeake & Ohio Railway 5% Bonds. The Convertible Bonds are to be offered pro rata to the holders of the 5% Bonds at 97½. They are now selling at a premium of about one-half point. The proceeds will be used to redeem the 5% Bonds, on June 1, 1916, the \$33,000,000 notes due June 1, 1919, and leave about \$7,000,000 for other corporate purposes. The plan in the note indenture requiring the purchase of \$17,000,000 for permanent improvement before the payment of dividends upon the company's stock, is to be continued in large part. The policy has been largely responsible for putting Chesapeake & Ohio in a position to handle economically the heavy traffic of the last year which has resulted in a decided increase in earnings. The ability of the Company to refund the large short-term note issue by long-term bonds, which may eventually be exchanged for a mortgage obligation, will also materially improve the financial structure of the Company.

The syndicate of the New York bankers recently put out \$7,000,000 Atlanta & Charlotte Air & Railway (a subsidiary of the Southern Railway Company) First Mortgage 5% Bonds, Series A, due July 1, 1944, at 103 to yield 4.80%. The offering covers that part of the Southern Railway main line extending from Charlotte, N. C., to Atlanta, Ga., a distance of 263 miles and is for track-tracking and other improvements.

Argentine Government one-year non-interest-bearing notes to the amount of \$15,000,000 were put out during the month to New York interests. The notes have been offered on a discount basis.

The total amount of all Argentine government loans placed with American bankers since the war broke out is \$79,340,262.

The bond sales for the month to March 27th of the New York Stock Exchange, averaged \$10,000,000 compared with \$3,711,000 in February. Anglo-French 5's have been by far the most active dealt in. The total sales of these bonds amounted to \$15,902,000 up to the 27th inst., or 24% of the total sales. The bonds have been extremely active, but have advanced in price to around 95¼, compared with a low of 93½. The strength of this issue well represents the strong demand for, and the scarcity of high-grade short-term bonds. On account of the length of the bond market during the past year many of our railroad companies have been unable to refund their early maturities, causing a shortage in the supply of short-term notes.

#### Exchange Rates.

The table given below shows approximately the rates of the exchanges as related to the United

States at this time. It will be seen that funds in Spain, Holland and the Scandinavian countries are commanding a considerable premium in New York, due in part to the risks and cost of transporting gold, and in part to the restrictions of the British blockade. Gold would be going from New York to Holland, Norway, Sweden and Denmark but for the delay and uncertainty occasioned by the blockade. The discount on sterling is practically equal to the cost of shipping gold from London to New York. The discount on Paris, Berlin and Petrograd checks is mainly due to the fact that gold is not permitted to leave those countries.

	Actual rates of exchange.		Normal.	Discount.	Premium.
	3/25/16				
London demand.....	4.763½		4.8665	2.11%	....
Paris checks.....	5.97½		5.18½	15.32%	....
Berlin checks.....	71¼		95¼	24.69%	....
Russian checks.....	31.60		51½	38.64%	....
Italy checks.....	6.69½		5.18½	29.21%	....
Spain checks.....	19.15		18	....	6.40%
Denmark checks.....	28.75		26.80	....	7.27%
Sweden checks.....	28.85		26.80	....	7.65%
Norway checks.....	28.85		26.80	....	7.65%
Holland checks.....	42.50		40.20	....	5.72%
Brazil checks.....	22.88		32.50	30.62%	....
Argentine checks.....	42.53		42.45	....	0.02%
Vienna checks.....	12.40		20.30	38.91%	....

	Actual rates of exchange.		Normal.	Discount.	Premium.
	3/25/16				
Hongkong .....	49½		There are no normal rates for Hongkong	....	....
Shanghai .....	67½		and Shanghai as they are based on silver.	....	....
Bombay .....	32¾	33		0.08%	....
Calcutta .....	32¾	33		0.08%	....
Japan .....	503½	493½	When Sterling is at.....	4.86	1.51%
Manila .....	49¾	49¾		....	....

#### United States Bonds.

The market for United States 2% bonds was very strong during the past month, as a result, mainly, of purchases by the Federal Reserve banks at par. In addition there was considerable buying for tax and circulation purposes throughout the country, quite a few changing hands above par and interest. This was the highest price prevailing for these bonds since they went below par in May, 1913. The Federal Reserve Banks held, on December 30, 1915, \$15,797,000 of all government bonds; on January 28, 1916, \$21,372,000, and on March 24, \$40,152,000.

As the floating supply of bonds was practically exhausted, prices for the other outstanding Government issues also advanced. The 3's of 1918 sold as high as 102¾ and interest (about a two per cent. basis), the Panama 3's of 1961 at 104 and interest, and the registered 4's of 1925 at 111½ and interest. Sales of the coupon 4's of 1925 were made at as high as 112¼ and interest, which is the highest at which they have sold for several years.

The government issues were all affected unfavorably by the falling off of revenues which followed the panic of 1907, the withdrawal of Treasury deposits from national banks having thrown many bonds on the market. Uncertainty about the future status of the two per cents, while the currency legislation was pending also effected these unfavorably and they sold as low as 94¼.

In offering to purchase two per cents. at par from their member banks, the Federal Reserve banks



have been anticipating the provision of law which authorizes the Federal Reserve Board to require them to make purchases aggregating not over \$25,000,000 per year. In making the apportionment the Board must take into account the bonds they have already purchased during the current year. The reserve banks have been giving the member banks of their own districts the first chance of sale, and it is probable that all of the \$25,000,000 will be purchased in this way instead of through offers to the Treasury.

The reserve banks have been notified by the Secretary of the Treasury, that upon application by them he will receive the two per cents, up to the statutory limit of \$25,000,000, and give in exchange one-half the amount in three per cent. thirty-year bonds without the circulation privilege, and one-half in one-year Treasury notes bearing three per cent. interest. The Treasury has the privilege of renewing the latter annually for thirty years, but presumably will take them up and retire them at the first maturity date when it has funds available for that purpose.

It is not likely that government bonds carrying the circulation privilege will ever again be issued, this country being now definitely committed to the more scientific practice, in vogue everywhere else, of issuing currency against commercial paper and gold. Since the workings of the Federal Reserve law will take \$25,000,000 of the two per cents off the market each year, or any less amount that may be offered, it is probable that the demand for twos by national banks for circulation purposes will be sufficient to keep them in the future at about par. Their status is now fixed, and a national bank that can keep its notes in circulation is able to derive a profit of about one per cent. on them at par. There is no apparent reason why a bank which can do this should desire to dispose of its bonds.

National banks organized since the Federal Reserve act went into effect are not required to issue circulation or to deposit government bonds unless they elect to take out circulation.

The reserve banks may either exchange one-half of their recently purchased two per cents for the new threes without the circulation privilege, or keep the twos and issue circulation upon them. The only time when they could use the circulation to advantage would be when their gold-secured circulation was full. Meanwhile, the advantage is in exchanging the twos for threes, particularly as the latter can be sold under present conditions at a premium of perhaps two per cent. Of course the three per cent. one-year notes can also be sold at a premium but it is more likely that the reserve banks will choose to keep them.

#### Government Finance.

The revival of prosperity is naturally having a favorable effect upon Treasury income. Importations are rapidly increasing, and, although the proportion of free goods is much larger than formerly, the customs receipts are considerably larger than at any time since the outbreak of the war. It is roughly calculated that the income tax, which for

individuals and corporations together, yielded 211,778 last year, will yield \$100,000,000 this year. The ordinary internal revenues are also increasing. The Treasury receipts for the month of February this year and last were as follows:

	1916	February 1915
Customs .....	\$19,239,534.99	\$14,390,000.00
Ordinary internal revenue	30,951,076.52	24,600,000.00
Income tax .....	2,006,807.86	500,000.00
Miscellaneous .....	3,235,394.48	3,000,000.00
	<hr/> \$55,432,813.85	<hr/> \$43,490,000.00

Including public debt transactions and other receipts and disbursements, there was a net excess of income in February of \$5,993,401.60, as against a net excess of disbursements in February, 1915, of \$18,070,621.94. In March the net excess of income to the 25th instant was \$3,572,335, as against disbursements in the corresponding period of the year of \$6,382,294.

From July 1st to March 25th of this fiscal year there was a net deficit of \$37,399,229 as against a net deficit in the corresponding period of 1915 of \$100,764,689. In ordinary revenue and disbursements the showing is not so good, but here the deficit is \$54,970,000 as against \$86,455,840 in 1915.

With this improvement in income the prospect of finding new revenues would cease to be a trouble if new and large expenditures were not required. The Secretary of the Treasury in his annual report estimated for additional expenditures upon the army and navy in the fiscal year 1917 to the amount of \$93,800,000 and upon the Panama Canal \$25,000,000. The last item may not be all required, but the expenditures upon the army and navy may be larger than indicated. It is evident that the campaign in Mexico was a considerable item in itself. The Hay armament bill, as it passed the House, if it becomes a law, will require an annual expense of about \$46,000,000. The Democratic House leader is reported as estimating the cost of the preparedness program at \$160,000,000, but since no program is agreed upon there is little basis for calculation.

The present customs duty upon sugar will remain, but, strangely enough there is talk of repealing all of the present stamp taxes.

The line of least resistance is toward higher taxes upon incomes, and particularly upon individual incomes. No doubt increases will be made, and the application of the normal tax upon incomes will be broadened. Higher taxes upon alcohol and whisky are under consideration, and a tax upon the manufacture of munitions is seriously being considered. The Ways and Means Committee of the House is not ready to report its recommendations.

#### Paper Money Issues.

Concern is expressed in some quarters over the large increase in the volume of paper money in circulation, as shown by a comparison of the Treasury circulation statements of March 1, 1916, and March 1, 1915. The figures are as follows:



	March 1, 1916	March 1, 1915
Certificates .....	\$1,325,475,659	\$945,416,959
Certificates .....	482,021,751	462,825,701
Notes of 1890 .....	2,146,621	2,305,704
States notes .....	340,641,586	324,533,295
Reserve notes .....	190,592,505	27,214,425
Reserve bank notes .....	2,999,970	.....
Bank notes .....	738,300,118	865,702,229

al .....\$3,082,178,210 \$2,627,998,313  
 se figures show an increase in all kinds of money of \$454,179,897, but the increase in certificates signifies nothing but an increase, the increase in silver certificates and United notes signifies nothing but interchanges in the circulation and the Treasury, and the of \$163,378,080 in Federal Reserve notes ly all covered by gold retired from circula- the hands of Federal Reserve agents. In- g national bank notes there has been a de- in the circulation of credit paper during the ear.

only item in the statement open to criti- s that of Federal Reserve bank notes. It is lt to see why these are issued. They are ly not needed in circulation and they are source of profit to the banks in the present f their reserves. This circulation, however, eplace national bank circulation retired; ly there can be no considerable increase without the retirement of national bank

The statement of Federal Reserve banks arch 24, shows that only \$1,053,000 of these outside of the issuing banks at that date.

### Business Situation.

main characteristics which have been noted business situation in recent months are un- ed, except to show signs of greater intens- Spring comes on and the period for more outdoor operations is at hand. There is ough of materials or labor for all the work ne country would like to have done, and the of course is that the requirements which ost pressing and can afford to outbid the ill be served first, and the others will their turn.

ffects of full employment and rising wages en in the excellent reports upon the retail which come from all sections of the coun- There is a large distribution of merchandise, etailers, instead of buying for immediate only, are endeavoring to cover their wants me time to come. This is always the case the turn has clearly been made, and the is to overwhelm jobbers and manufacturers timulate prices unduly. The buying power e country, based upon the money value of ops and disbursements for wages in all lines dustry, was never so great as at this time, s effect is to be seen in the enormous traffic s crowding the railways. President Elliott, e New York, New Haven & Hartford, at a rence held at the office of the Inter State merce Commission in Washington early in a, stated that the volume of business offered

to that road was twenty-five per cent. larger than had ever been offered before. The terminals everywhere are congested, and traffic has threat- ened to get in its own way to such an extent as to seriously cripple the efficiency of the roads. In order to prevent this it was necessary to declare extensive embargoes, refusing to receive freight unless delivery to the point of unloading could be directly made. A situation of this kind rapidly increases in complexity. All storage facilities are soon overwhelmed when the flow of traffic is interrupted, and a threat of interruption excites shippers to unusual precautions which tie up more cars and add to the confusion.

Following the conference at Washington an- other was held in New York, on March 17th, at which a permanent committee was created con- sisting of one member of the Inter State Com- merce Commission, Mr. E. E. Clark, and six rail- way presidents. This committee is given general charge of the situation, and is empowered to handle and declare embargoes, and deal with de- murrage and storage rules. The resolution under which it was appointed, authorizes it specifically to apply the principle of storage charges for the use of facilities as distinctive from transportation charges, as follows:

"First: the track storage charge.

"Second: the warehouse storage charge.

"Third: the car storage or demurrage charge."

It is evident that at a time when the entire transportation system of the country is in danger of having its efficiency seriously impaired, ordin- ary rules for the use of cars and warehouses may be quite inadequate, and it is proper that all parties using such facilities shall be made to con- form to whatever reasonable rules are necessary to relieve the situation. All of the roads are handling a larger volume of traffic than ever be- fore, and all that they can find cars for. The present volume of trade cannot be more concisely described than it is in this statement.

This volume of business is yielding generally very satisfactory profits. In the first place a busi- ness operating to capacity, is normally on its most profitable basis, making its largest output, with the smallest overhead and unproductive ex- penditure. This is the situation now, and gener- ally speaking the seller is sufficiently independ- ent to take a fair price. The metal-mining and refining industries are enjoying unprecedented conditions, for spot delivery copper has been quoted of late at 28 to 28½ cents, spelter at 18 to 18½ and lead at 7 to 8 cents. Production natu- rally is to the limit, with miners' wages at \$4.50 per day. Silver, which declined from 54 cents per ounce to about 47 in the early months of the war, is now in great demand the world over for subsidiary coinage, and selling at about 60 cents.

Wages, skilled and unskilled, organized and unorganized, are tending upward irresistably under the influence of competing demands from the various industries. No organized compul- sion is more effective upon an employer than see- ing his force dwindle from day to day as the men



leave for other employment. There is no uncertainty about what must be done to meet a situation of that kind. The conference between operators and miners in the bituminous coal industry, which seems to have been characterized by a most commendable spirit on both sides, came to an agreement upon wage advances generally acceptable as equitable. Farm employment agencies report a scarcity of help. The Department of Agriculture at Washington reports that in the last five years wages have increased ten per cent., and in the last twenty years sixty per cent. Its figures for the last five years do not, however, include the Spring of 1916.

The construction industries, which were prostrate in the early months of the war, are all prosperous again. The steel industry is in a runaway condition, with its output for this year practically sold out. The ship-building plants on the Atlantic and Pacific coasts and on the Great Lakes have their present capacity engaged well through 1917, and enlargements are under way and new companies being organized. Permits issued for new buildings in the leading cities make a good showing compared with the period before the war, although the rising prices for materials cause work to be held up. The lumber producers in the south and the northwest are doing well and expecting one of the best years they have known.

The situation is not free from unpleasant features. The railway situation is hampering many industries, and the scarcity of materials and sudden changes of price are becoming serious to some operations in which the price of goods or services to the public cannot be readily changed. The high price of steel is embarrassing industries whose wants have not been covered by contracts.

When prices must be raised to consumers on staple goods, consumption will be curtailed where it can be. This will mean that we are doing without what we want in order that more imperative orders may be filled, and to a moderate extent that may be just as well, if the orders are merely backed up to come in later when we need them more.

### The Iron and Steel Industry.

The iron and steel industry is in another one of its great periods of activity and expansion. The record for the production of pig iron is about 30,000,000 tons in a year, but it is running now at a rate approximately 33 1/3 per cent. above that. The capacity in all branches is being enlarged by old companies increasing their capacity and new companies being formed. The Bethlehem and Midvale organizations, with their recent acquisitions and contemplated construction, will be large and highly efficient producers, aggressive for business at home and abroad and supplied with ample capital. The United States Steel Corporation is planning to spend about \$100,000,000 upon new construction and improvements, some \$25,000,000 of which will be upon a new tube plant at Gary, to supply the Western trade, and as much more will be spent

upon by-product coke ovens. The latter is an improvement in methods. The remainder appropriation will be for numerous additional improvements, for diversifying products, balancing the works and effecting economies. The Steel Company, an important independent concern located between Gary and Chicago, is making extensive additions, and the same is true of the public Iron and Steel and other large products in the Youngstown district and in the South. More than a dozen entirely new companies of moderate size, but large enough to be factors in some products, have been recently organized. It is likely that the Steel Corporation with its \$100,000,000 additions will make a larger proportion of iron and steel product than it does now. The industry is getting into position, both in capacity and in economical methods, to be a stronger factor ever in the world's supply of equipment and machinery.

### Foreign Trade.

December, 1915, broke all records for exports from the United States, the figures being \$33,492, and January, 1916, was next, with \$33,072. Our imports are now running far ahead of the last year, and for January, the latest month for which they are available, were larger than in any previous month of the country's history. This is due almost wholly to an increase in material in our manufactures, and to an enlarged trade with countries outside of Europe. Imports of manufactures in January, 1916, were actually less than in January, 1915. The following tables show imports and exports by great groups and by geographical divisions for the month of January, 1916, and for the seven months of this fiscal year with January:

GROUPS	Month of January 1916	January 1915	7 months ended January 1916
IMPORTS	Dollars	Dollars	Dollars
Crude materials for use in mfg....	89,060,103	38,029,061	460,679,854
Foodstuffs in crude condition and food animals..	20,357,649	17,269,671	150,755,955
Foodstuffs partly or wholly mfd.	20,472,052	15,835,656	133,912,797
Manufactures for further use in manufacturing	29,510,186	20,429,204	173,262,431
Manufactures ready for consumption .....	23,227,981	29,031,112	169,978,225
Miscellaneous ..	1,734,146	1,553,613	8,559,729
<b>Total imports ..</b>	<b>184,362,117</b>	<b>122,148,317</b>	<b>1,097,148,991</b>
<b>EXPORTS</b>			
Crude materials for use in mfg....	43,970,466	68,622,400	286,424,272
Foodstuffs in crude condition and food animals..	29,494,908	49,788,768	187,290,741
Foodstuffs partly or wholly mfd.	51,079,095	41,153,468	343,241,898
Manufactures for further use in manufacturing	48,807,758	30,130,946	316,619,220
Manufactures ready for consumption .....	146,135,347	64,038,743	944,671,795
Miscellaneous ..	6,986,661	9,901,867	67,763,614
<b>Total domestic exports .....</b>	<b>326,474,235</b>	<b>263,636,192</b>	<b>2,146,011,540</b>
<b>Foreign merchandise exported ..</b>	<b>4,310,612</b>	<b>4,243,121</b>	<b>36,804,627</b>
<b>Total exports....</b>	<b>330,784,847</b>	<b>267,879,313</b>	<b>2,182,816,167</b>



increase, in the exports for the seven months January, 1916, in the item Miscellaneous, to the value of \$67,763,614 arises from the exportation of automobiles to the value of \$51,183,337; of furs to the value of \$14,116,237; and of other goods to the value of \$2,273,995.

Exports from various countries:	Month of January		7 months ended January	
	1916	1915	1916	1915
	Dollars	Dollars	Dollars	Dollars
Canada	47,996,758	47,918,855	319,680,384	387,604,559
Great Britain	40,405,644	27,803,261	288,852,463	239,871,595
France	40,940,195	23,569,855	207,179,653	129,016,687
Germany	32,616,649	18,396,096	210,917,260	138,942,802
Italy	12,254,458	2,118,810	43,641,018	25,686,763
Japan	10,148,413	2,341,440	26,878,213	9,385,830
Other countries	184,362,117	122,148,317	1,097,148,991	930,508,236
Imports from various countries:	Month of January		7 months ended January	
	1916	1915	1916	1915
	Dollars	Dollars	Dollars	Dollars
Canada	229,463,186	211,826,765	1,520,555,253	901,766,858
Great Britain	58,921,924	30,215,295	382,341,016	271,915,765
France	13,842,584	6,989,339	97,396,826	45,739,857
Germany	18,987,391	10,394,496	101,572,915	57,744,480
Italy	6,477,094	5,495,344	56,857,772	42,160,980
Japan	3,092,668	2,958,074	24,092,385	15,332,208
Other countries	330,784,847	267,879,313	2,182,816,167	1,334,660,148

rise of prices, scarcity of materials, difficulty of high cost of ocean transportation, and reduction of the home market, are together seriously interfering with our promising export trade in new goods. Many manufacturers who were eager for orders a year ago now find themselves unable to take care of even the domestic business of their own country and naturally feel that they must give their attention to patrons of long standing. The situation of prices is not fully understood by new customers who are inclined to think that dealers and manufacturers in the United States are taking advantage of their situation. Of course the situation is worldwide, beyond any possible control, and our domestic purchases as much as those for export delivery. Manufacturers and dealers are fully showing all possible consideration to people who have been accustomed to look to them for goods, and in many instances orders from abroad are being filled without profit or at a loss, rather than to give misunderstanding.

It is of little avail to say that the United States is making the most of its opportunity in foreign trade. Of course it is not doing all that might be done if the country was put in the hands of an efficient Committee with full powers to manage its affairs as though it was a single business corporation. The needs of the world, and our corresponding opportunities are so great at this time that surveying them the observer is almost persuaded that the people of the United States should be on siege rations, with bread cards, meat and milk tickets, and compelled to economize in order to offset the waste which is going on in Europe and to make this country headquarters of world trade and finance. But that is an imagination, worth thinking of only as it may influence the action of individuals. The consumptive needs of the United States grow so fast that in a new period of general prosperity they overtake anticipations. When the pressure upon our productive capacity comes, as we have it now, we must enlarge it, as we are doing now, and the construction work increases the congestion for goods being. We can only build up a permanent

foreign trade as we plan to care for it regularly, and although the present affords an unusual opportunity to obtain an introduction into new markets, the very conditions which create the opportunity also create great difficulties in the way of a rapid development of new trade. The trade of the world cannot be shifted or reorganized over night; too many relationships are affected and too many readjustments are required. For one thing it is certain that there can be no great expansion of industry in the United States, and no extensive shift of trade from Europe to the United States, without a revival of immigration. If Europe loses trade the people who have been employed upon it will certainly want to follow the trade, and they will be needed where the trade is taken on, but there is a popular feeling in the United States that this country no longer needs or wants immigration. People who think we can increase our foreign trade, or even hold what we have of it, without a growing supply of labor, are as obtuse as the British public which thinks that higher wages will enable it to have as many goods as formerly, although the goods cannot be made.

### British Banks and Foreign Trade.

In the discussion which is going on in England over the position which that country will occupy in foreign trade after the war, considerable has been said, critically, of what is called the lack of enterprise on the part of British banks in supporting trade and enterprise, particularly abroad. At a recent meeting of the Association of Chambers of Commerce of the United Kingdom these criticisms were voiced, speakers alleging that the banks had drifted into stagnant methods, possessed monopoly, and that greater elasticity should be given to banking facilities.

Such criticisms are familiar in every country. There is no degree of liberality in management which will satisfy all of the people who would like to have banking accommodations, and many people fail to consider that a bank's first obligation is to its depositors, and that all its policies are necessarily subject to this obligation to keep in position at all times to meet their requirements. At the meeting referred to, Sir Edward Holden, of the London City and Midland Bank replied to the critics, and is reported in part as follows:

What was banking? It was borrowing with the right and lending with the left. They had to remember that almost every penny that the bankers borrowed in this country was repayable on demand. That was where the great difficulty came in. If the bankers could borrow the money at six months and twelve months, then they could afford to make longer fixtures. Every banker who knew his business would take his deposits as a whole and would consider how much he could with safety lend to the industries of the country, knowing that he must not go and lend to one of his customers and call the money back tomorrow. That would be no good for their industries at all.

Sir Edward Holden went on, however, to suggest the formation of a large credit corporation, in which other banks and trading companies might take stock, which would give special attention to the promotion of foreign trade and investments. He seems to have had in mind the Federal Reserve System



of the United States and the American International Corporation as illustrating the kind of an organization and the kind of service desired. His remarks were apparently convincing to his hearers and have occasioned much comment in British journals.

### Petroleum and Gasoline.

The situation in the petroleum industry is as extraordinary as in any other, but the reasons in this case are related to the domestic supply and demand rather than to the foreign situation. Indeed there was a decline of 40,000,000 gallons in exports of gasoline in the year. A rapid increase in the consumption of gasoline and a falling off in the production of oil of high gasoline content is the explanation. The Secretary of the Interior in response to a resolution of the Senate has discussed the situation in detail, but the essential facts are that the gasoline requirements of the United States increased during the last year by about 25 per cent. over those of 1914. The production of crude petroleum, on the other hand, showed practically no increase last year, being 291,400,000 barrels, as against 290,312,000 barrels in 1914. And this is not the whole story, for the Cushing pool in Oklahoma which produces oil with a higher gasoline content than any other field, declined from more than 300,000 barrels per day in April, 1915, to less than 100,000 barrels per day in January, 1916. As the Cushing crude yielded about 30 per cent. gasoline the diminished output of crude in that field represented a loss of 60,000 barrels of gasoline per day between April and January. Although the loss of crude was made up in other fields the loss in gasoline was not, owing to the smaller yield of the other oils.

Secretary Lane's report does not give much encouragement to expect the supply of gasoline to keep pace with the demand in the future. He has summed up the situation as follows: 1. "The consumption of gasoline is rapidly increasing. 2. The production of crude has been generally regarded as near its maximum."

His report shows that for a number of years the production of crude oil has not kept pace with the demand for gasoline, but the supply of the latter has been kept up by increased extraction.

In 1909 the volume of crude produced was more than fourteen times as great as that of gasoline. In 1915 the ratio of crude over gasoline production was only  $6\frac{1}{2}$  to 1. In considering these figures (the years given are the only ones for which Secretary Lane finds gasoline figures available), it is interesting to note the growth in the automobile industry at the same time.

Gasoline Production	Crude Petroleum	Licensed Automobiles
1899.. 6,680,000 Bbls.	1899.. 60,000,000 Bbls.	1899.. 10,000 Cars
1904.. 6,920,000 Bbls.	1904.. 117,100,000 Bbls.	1905.. 85,000 Cars
1909.. 12,900,000 Bbls.	1909.. 183,200,000 Bbls.	1910.. 400,000 Cars
1914.. 34,915,000 Bbls.	1914.. 265,800,000 Bbls.	1914.. 1,253,875 Cars
1915.. 41,600,000 Bbls.	1915.. 267,400,000 Bbls.	1915.. 1,754,570 Cars
		1916.. 2,225,000 Cars

The number of automobiles given is for the first of each year.

In addition to the enormous growth of the demand for gasoline for automobiles thus indicated, Secretary Lane calls attention to other noteworthy

channels of consumption: "On July 1st, 1915 there were approximately 300,000 motor boats in the United States; on January 1st, 1915, there were approximately 45,000 motor trucks in the United States; on January 1st, 1916, there were approximately 30,000 farm tractors in the United States."

Secretary Lane bases his verdict, that "production of crudes has been generally regarded as at its maximum," on his estimate of the percentage exhaustion of the principal oil fields.

The Lima-Indiana field, he finds, is 93 per cent. exhausted; the Appalachian, 74 per cent.; the Coast and Colorado, 79 per cent. each; the Iowan, 60 per cent.; the Mid-Continent (Kansas and Oklahoma), 50 per cent.; Northwest Louisiana, 45 per cent.; North Texas, 40 per cent.; California, 35 per cent.

Of these three fields which still have more than 50 per cent. of their petroleum supply untapped, California, with a production of 89,500,000 barrels in 1915, is far the most important, (Northwest Louisiana and Northwest Louisiana did not produce more than 1 per cent. of this amount), and the average gasoline content of California crude is given as only  $2\frac{1}{2}$  per cent.

### Efforts to Increase Production.

The high prices now ruling for gasoline and crude oil have naturally stimulated great efforts in every known field, but the results as yet are very satisfactory.

In January and February of last year, 1,869 wells were in operation, and 2,869 were being drilled, and the new production derived from them totaled 298,351 barrels. In January and February of this year, 3,341 wells were in operation, and 4,000 were being drilled, but they only showed a net production of 272,342 barrels. The average daily production from all fields in January and February, 1916, was about 800,000 barrels per day, compared with 860,000 barrels per day in the first two months of 1915.

Immediate relief would be given by an improvement upon the carburetor that would make practicable the use of kerosene as a fuel for automobiles. Ordinary crude oil furnishes at least one and often three, gallons of kerosene to every gallon of gasoline.

There is hope also from improvement in methods of refining, by which an increased extraction of gasoline may be accomplished. The last report of the Bureau of Mines has the following to say about what has been accomplished by the so-called "cracking" process:

CRACKING PROCESS FOR THE PRODUCTION OF GASOLINE. "A large number of processes have been patented for the production of increased quantities of gasoline or kerosene from the heavier hydrocarbon mixtures by selective distillation.

"Of all these processes only one so far as known is in extensive use in the industry, this being the well-known Burton process, which is owned and controlled by the Standard Oil Co. of Indiana, and has been rather generally employed by the various Standard Oil Companies at different periods. The fact that the Standard Oil companies have put in large and expensive installations involving the use of this process is the best possible indication of the need of efficient cracking processes in



Federal Reserve Council has handed down an opinion to the effect, that a vote of more than two-thirds of the stockholders of a national bank authorizing a sale of its assets to another corporation does not constitute a vote to go into liquidation required by the revised statutes of the

The conditions of note issue are modified, 1st, to allow drafts and acceptances, as well as promissory notes, to be made eligible for deposit with reserve

total Reserve notes in circulation, 163,834.  
 After deduction of items in transit between Federal Reserve Banks, 12,628, the Gold Reserve against Net Liabilities is 74.2% and the cash reserve is 76.8%. Cash Reserve against liabilities after setting aside 40% Gold Reserve against net amount of Federal Reserve Notes in circulation, 77.6%.  
 Maturities of bills discounted and loans: within 10 days, 7,855; to 30 days, 10,926; to 60 days, 21,106; other maturities, 20,063; Total: 6,550.



agents for circulating notes; and, 2nd, to permit the reserve banks to deposit gold "as collateral" with the reserve agent for notes, such gold to be included with that in bank's own possession in calculating the 40 per cent. reserve.

The provision as to drafts and acceptances is certainly unobjectionable, as they are the highest type of commercial paper. The provisions liberalizing the methods of note issue simply overcome the difficulty created by the complicated partnership arrangement between the banks and the government. If the banks issued their own notes, as all other central banks do, they would give their notes in exchange for gold and include the gold in their legal reserve, as a matter of course. All the issue banks of Europe do so. The very essence and virtue of the reserve system is in its ability to protect the banking situation by means of its ability to grant credit and issue notes. That this power is theoretically subject to abuse is a fact incidental to the possession of the power to give protection. We are bound to assume that under the supervision of the reserve board and the constant scrutiny of the financial world the power will be held in reserve under ordinary conditions and used only when needed for protection. There is evidently no inflation in the giving of notes in exchange for gold; inflation can only come by the granting of credit. The accumulation of gold in the reserve banks will give them larger available resources in an emergency.

#### REAL ESTATE LOANS BY BANKS OUTSIDE OF CENTRAL CITIES.

The provision regarding real estate loans is altered so that banks may loan an amount equal to 50% of the value for five years on farm land, for one year on other real estate, confining the loans to property located within a radius of one hundred miles of the lending bank, irrespective of the reserve district boundaries, loans not to exceed 25% of the capital and surplus or one-third of the time deposits of the lending bank.

#### FOREIGN BRANCH BANKS.

The section with reference to foreign branch banks permits specially organized corporations to do a banking business in foreign countries. The details as to citizenship of directors, forfeiture of charter, location of branches and stockholders, are fully set forth in the proposed legislation. One of the interesting features is that directors are exempted

from the interlocking directorate prohibitions contained in the Clayton Act. The stockholders not be limited to individuals, but banks may be stockholders in these foreign branches to the extent of 10% of their paid-in capital and surplus. Member banks may act as agents of the foreign banks in dealing with the Federal Reserve Banks. These banks shall make reports and be subject to the examination by the Federal Reserve Banks. Banks with more than \$1,000,000 capital are permitted to hold stock to the extent of not more than 10% of their capital or surplus in foreign domestic corporations authorized to do business abroad.

The bill further provides that national banks with places of one hundred thousand inhabitants and over with at least \$1,000,000 capital and surplus may upon authority of the Federal Reserve Board establish branches within the city, town or village in which they are located. Banks in other places may establish branches within their home county limits, provided that no such branch shall be established unless the capital of the parent bank is at least equal to the aggregate of the amounts which would be required of each branch if it were organized as an independent bank.

#### Discount Rates.

*Discount rates of each Federal Reserve Bank in effect March 28, 1916.*

	MATURITIES				Agricultural and livestock paper over 90 days.	Trade acceptances.	
	10 days and less.	over 10 days to 30 days, inclusive.	over 30 days to 60 days, inclusive.	over 60 days to 90 days, inclusive.		To 60 days, inclusive.	Over 60 to 90 days.
Boston.....	3	3½	4	4	5	3	
New York....	3	4	4	4	5	3½	
Philadelphia..	3	4	4	4	4½	3	
Cleveland....	3½	4	4	4½	5	3½	
Richmond....		4	4	4	5	3½	
Atlanta.....		4	4	4	5	3½	
Atlanta.....							
N. W. Orleans br.						C3½-4	C
Chicago.....	3½	4	4	4½	5	D 3	D
St. Louis.....	3	4	4	4	5	3½	
Minneapolis..		4	4	4½	5	3½	
Kansas City..	3½	4	4	4	4½	3½	
Dallas.....		4	4	4	4½	3	
San Francisco	3	3½	4	4½	5½		

A Rate for commodity paper maturing within 90 days.

B Rate for bills of exchange in open market operations; Atlanta 5½%; paper bought, Dallas 3 - 5.

C Rate for trade acceptances bought in open market, without bank indorsement.

D A rate of 2 to 4 per cent for bills with or without member bank indorsement was authorized on Dec. 21, 1915.

E Rate for commodity paper maturing within 30 days, 3½ per cent; over 30 to 60 days, 4 per cent; over 60 to 90 days, 4½ per cent; over 90 days, 5 per cent.

THE NATIONAL CITY BANK OF NEW YORK



## **“City Bank Service.”**

---

CORRESPONDENTS and depositors find this service unsurpassed. It is the outgrowth of 100 years' business experience and success.

The excellence of the service is attested by the continuous growth of our resources.

The service is available to you and might become invaluable. We should be glad to hear from bankers, merchants and manufacturers who contemplate opening a New York account or who may wish to establish new or additional banking facilities.

None too large ; none too small.

---

**THE NATIONAL CITY BANK OF NEW YORK.**





1916

## U. S. SECURITIES GOVERNMENT FINANCE ECONOMIC AND FINANCIAL CONDITIONS

NEW YORK, MAY 1, 1916

### General Business Conditions.

**T**HE political situation, as regards the submarine controversy and the relations with Mexico, has verged upon the critical throughout the month, but aside from a slight disturbance among the speculative holders of stocks it has been without apparent influence upon business. Evidently nobody believes that any possible developments in either quarter would adversely affect the prevailing state of prosperity in the United States.

Business the country over continues at the top notch rate, with conditions on the whole rather more normal and stable in appearance than a month ago. The railway congestion has been reduced under the management of the committee of officials appointed for that purpose, and traffic is moving more smoothly but to the limit of the capacity of the roads. Complaints of car shortage are heard, particularly from the lumber industry in the Southwest, but considering the tremendous amount of freight moving the situation is now very well in hand. Navigation has opened on the lakes with an immense tonnage in sight. The lake boats formerly operated by railway lines and which had to be sold in compliance with law, have either been sold for the coast trade or taken over by a new corporation organized at Buffalo for the purpose, and which will operate in connection with the railways.

The volume of commodities moving from original sources into distribution is enormous and well balanced as between merchandise, miscellaneous freight and farm products, although the end of the crop year is approaching, when the latter usually run low. The big crops of the last two years have filled the available storage, and created large reserves of all the grains. Wheat is the one farm product of importance that is selling lower than last year, but in the spring wheat territory the yield was phenomenal and great prosperity prevails there. Hogs have been selling since February in the middle west packing centers close to the \$10 mark, which is an exceedingly profitable price, and cattle and sheep are doing about as well. The shearing season is now under way in the western states, and wool is bringing the highest prices known since the paper money period of the civil war. This prosperity of the farmers is the solid basis which

gives confidence throughout the west. There is a large movement of migrating farmers from Minnesota and the states west of it this year for settlement upon new lands.

The winter wheat crop is less promising a year ago, except in the three states, Nebraska, Kansas and Oklahoma, where it looks very well. The season in the spring wheat territory is backward and it now seems improbable that the wheat yield of the country this year will compare to either of the phenomenal crops of 1914 and 1915. It may, however, be quite large in view of the unusual stocks carried over. The highest price on the crop in the Chicago market was \$1.38 per bushel, realized in January. The price is now higher in the United States than in Canada by just about the ten cent duty.

The cotton outlook is for a moderate increase in acreage, with a use of fertilizers even greater than last year's. The consumption of cotton by American mills made a new high record in March, 613,625 bales. Exports for eight months ending March were 38 per cent. lower than for the previous crop, and cotton consumption has been reduced all over the world. The exports of cotton goods by Great Britain in 1915 were about two-thirds those of 1913, the exports to Germany and Austria-Hungary were eliminated, those of France were about one-third normal, and those of all other countries except the United States were below the 1913 figures. The exports of the United States rose from \$54,000,000 in 1914 to \$60,000,000, but this nowhere near made good the decline elsewhere. Unquestionably shelves are bare the world over, and a large demand for cotton should follow the end of hostilities. The price has held around 12 cents per pound.

The demands upon manufacturers of all kinds of goods are sufficient to assure the full output of the industries throughout this year, and to start into 1917. Price advances, instead of curbing purchases, have prompted buyers to look needs farther into the future. There are complaints from manufacturers who are unfavorably affected by the scarcity and high prices prevailing for materials, particularly steel, but they are expected to continue to gain upon production. A manufacturer who must have steel to carry on his business simply cannot afford to run the risk of losing his wants uncovered.

The steel companies are disposed to hold



on staple goods consumed in this country, the curious result is seen of finished goods at lower prices per ton than the partially finished products from which they are made. Rails, for example, are cheaper than wire and railway rails cheaper than steel billets and steel bars used for shells. The manufacture of munitions has been developed in France and England to the point where it is said that countries are quite independent of further imports abroad for the finished goods, but they have the steel. This is not entirely agreed upon if they are to take our steel bars it would prefer to have them employ our machine shops. However, Mr. Schwab is authority for the point, that less than 10% of our steel production is being exported at this time. The railways are compelled by the heavy traffic to order more, notwithstanding the advance in prices, they are buying liberally of rails. The Railway Gazette compares the equipment orders for the three months of 1916 and 1915 as follows:

	1916	1915
Locomotives . . . . .	1,137	181
Freight Cars . . . . .	38,169	8,943
Passenger Cars . . . . .	537	696

The orders are from domestic companies and there is a good volume of foreign business. The demand for steel rails which has been nominally 100,000 tons per ton, since about 1899 is about to be exceeded. As a matter of fact, however, completely few rails have been sold at \$28. in the last few years. The specifications for rails have changed materially, and although \$28. has been the base price, rails have been made to order and have cost considerably more. Twenty per cent. more labor is put into rails, and new tests have been introduced to toughen them. The ship-building industry continues to expand and at the present rate we will soon pass the world record for the amount of tonnage under construction in one country. Large sums of money are being turned into the business, and on the last according to the Department of Commerce 386 ships, with a gross tonnage of 1,067,700 tons are building or ordered. This compares with 310,089 gross tons on July 1,

and textile mills are operating to capacity, and on a very satisfactory basis as to profits. Our imports of woollen goods in the seven months ending with January amounted to \$8,839,465, against \$7,451 in the same months of the preceding year. On the other hand, our exports of woollen goods in the same period increased from \$70 to \$12,612,865, and with an unprecedented demand at home the woollen mills are full of orders for six months to come. In recent months there has been an increasing expansion in the export of cotton goods, and these include all qualities in the past our exports have been confined to the lowest grades, but a promising trade is being developed in higher grades. The best of it is that our manufacturers are showing more interest in the export trade than ever before and are becoming con-

vinced that they can hold a fair share of it even when the old competition is restored. The United States produces about two-thirds of the cotton of the world and consumes more of it than any other country, but it supplies only about five per cent. of the cotton goods exports of the world. In 1913, the last calendar year of undisturbed trade, the exports of all cotton manufactures of the United States amounted to about \$54,000,000, those of Great Britain to \$618,000,000, of Germany \$120,000,000, France \$79,000,000, Japan \$58,000,000 and Switzerland \$50,000,000.

The shoe industry is running to capacity and confronted with steadily rising prices for leather, and the tanners are full of business but paying the highest prices ever known for hides. So the increasing cost of shoes is traced back to the farmer, and to the fact that the cattle supply has not kept pace with population or with the increasing uses for leather.

### The Labor Situation.

The factor of chief concern in the business situation, both for the immediate future and for the period "after the war," which is on our minds, is the labor question. A conciliatory disposition has been generally displayed, employers showing a willingness to share the present prosperity and the employes a readiness to adjust the differences and keep at work. The conferences in the coal industry have been of great importance on account of the large body of wage-earners involved, and fortunately agreements for both bituminous and anthracite fields have now been reached.

The most serious of the remaining controversies in its possibilities is the one between the railroad companies and the orders of railway trainmen. Since the demands of the latter have been formulated, the expression of public opinion against a strike has been so pronounced that it is assumed to carry considerable weight with the leaders who have the case in hand, and there have been expressions within the orders which indicate that extreme action will not be supported. The operation of the railways, however, is a matter of such vital public importance that there will be uneasiness until the threat of a strike is withdrawn.

Nothing could more clearly stamp the present industrial situation as extraordinary than the grant by the leading steel companies of a second ten per cent. wage advance since the beginning of this year. It is understood to have been given without any demands or representations by the employes, as an act of fair and intelligent business policy. There are naturally two views, within and without the industry, as to the wisdom of the action. On the one hand it is held that present conditions in the industry are evidently temporary, that it is altogether improbable that an advance of twenty per cent. upon wages that were already the highest ever known in the industry, can be long maintained, and that it is walking deliberately into trouble to



make an advance which will have to be rescinded.

On the other hand it is said that present earnings of the companies justify the raise, that labor is scarce, wages are rising in competitive industries, it is important to keep the full complement of men, and it will foster good feeling among the employes to act promptly as the situation warrants. As to the future, this view is that if conditions require a reduction, the men will be more inclined to accept it if they are convinced that they have been fairly dealt with in times of prosperity. The copper mining industry has been operating for some years upon a sliding scale of wages.

The record of the United States Steel Corporation's payments to labor since April 1, 1905, is a remarkable one. Prior to January 1st, 1904, wages had been regulated largely by the subsidiary companies, and the changes were more or less uneven and irregular, but the movement was upward, and at the close of 1903 were at the highest average ever known in the industry. On January 1st, 1904, a general reduction of about 10 per cent. was made, on account of a depression then prevailing, and to correspond with a reduction that had been made by competing companies. On April 1st, 1905, this reduction was rescinded, restoring wages to the level of 1903, and since then wages have not been changed except to be moved upward. These advances have been as follows:

January 1, 1907.....	7	per cent.
" 16, 1910.....	6¼	" "
February 1, 1913.....	10	" "
" 1, 1916.....	10	" "
May 1, 1916.....	10	" "

In each case the percentage of increase was applied upon the rates in effect at the time the increase was made, so that the total increase since January 1, 1907, has been more than 43¼ per cent. upon the wage rates of that date.

The following table gives a summary of the information relative to wages shown by the annual reports of the corporation:

#### UNITED STATES STEEL CORPORATION WAGE PAYMENTS.

	Average Number Men.	Average Rate per Man per Day.	Annual Wage on Basis of 310 Days.	Wage per Annum for Actual Time.
1902....	168,127	\$2.327	\$721	\$717
1903....	167,709	2,400	744	720
1904....	147,343	2,224	689	677
1905....	180,158	2,291	710	711
1906....	202,457	2,361	732	730
1907....	210,180	2,479	768	765
1908....	165,211	2,483	770	729
1909....	195,500	2,506	777	776
1910....	218,435	2,599	806	801
1911....	196,888	2,709	840	820
1912....	221,025	2,751	853	857
1913....	228,906	2,920	905	905
1914....	179,353	2,973	922	905
1915....	191,126	3,007	932	925

The above calculation covers wages and salaries of all employes and officers of the corporation, but, if the salaries of the administrative and selling force are eliminated the averages are changed but slightly. Thus, for 1915 with this elimination

made the average rate per diem would be instead of \$3.00.

A general wage advance is taking place in New England textile industries, the second since January 1st last, the two aggregating 10 per cent., and affecting upwards of 300,000 employes.

#### The Law of Progress.

This wage movement is illustrating with increasing effectiveness the economic principle of the law of progress. An allusion was recently made in these columns to the principle that with capital increasing faster than population, which is normally true in advanced countries, a rise of wages, which amounts to the same thing, i. e., a larger distribution of products, is inevitable. As the proposition met with dissent in some quarters, it is worth while to state it again, although it is so simple that elaboration is scarcely possible.

The owners of capital naturally wish to get the most out of it productively, and the only way this can be done is by entering the business field, and offering some kind of service to the public, either by developing natural resources, manufacturing for the market, or by conducting transportation, merchant banking, etc. If the capitalist chooses to be idle, and invests his money in stocks and bonds, his capital is none the less employed. None of these activities can be carried on without employing labor, or carried on successfully unless they render some actual service to the public. If, then, capital is increasing faster than population or the labor supply, there is an unavoidable competition between the owners of capital for labor; otherwise the value of the new capital which is always coming into the market would have to allow it to remain idle. The incentive to accumulate would disappear in a situation which exists in the labor market as the result of the large accessions of capital to the past year, partly from Europe and partly from profits in the domestic trade, and the effort of the owners to get all capital into employment under conditions are exceptional and the effect is more evident than usual, but the principle is always the same.

This competitive struggle for labor is shown in its direct action by the substitution of machinery for labor, but this has the effect of multiplying the supply of goods and reducing the price of them, the demand for goods and for labor to maintain production is as great as before. If production increases, it must be either a rise of wages or a reduction of prices to enable the new supply to be taken up in the market. It is manifestly impossible that the amount of horsepower used in the factories of the United States should increase 85 per cent., between the census of 1899 and the census of 1915, unless there was a larger distribution of goods.

A study of the workings of this natural law of distribution will show that there is not nearly so much inequality in the distribution of the benefits of progress as many people think. If they will only put the newly created wealth into use and to it devote their service they will be better informed.



results of the electrification of a section of Norfolk & Western Railway are summarized in the following manner in the following extract from a recent article in the *New York Evening Post*:

In 1914 the average number of trains hauled by engines in both directions over the section now electrified was nine, each train weighing approximately 26,100 tons per twenty-four hours. This is equivalent to 26,100 tons per twenty-four hours. Each train was hauled by from two to three Mallet compound locomotives equipped with modern stokers and mechanical stokers.

At present time under electric operation the average traffic alone is about 35,000 tons per day, with 350 trains per train. This traffic is handled by nine electric engines, as only part of the twelve are in service at any one time.

Coming to and resulting directly from this electrified operation are numerous outstanding and important results. It has been abundantly demonstrated that the steam locomotives can readily take over the operation of the electric engines, and they have learned, to their pleasure, the ease and comfort of their new work; the electric engine has not only established, if of proper design and construction, its ability to parallel the necessary starting characteristics of the steam locomotive in heavy tonnage service, but it has also demonstrated its reliability in winter service in the winter months, as attested by the fact that nearly 45,000 engine-miles with no delay due to engine failures in service; the electric engine-mileage has been increased 100 per cent. over steam, with a corresponding greater crew-mileage; the nominal train tonnage has been maintained regardless of weather conditions over certain sections these have been increased under electric operation by approximately 50 per cent.

Train speeds on the grades have been increased—on the heavy grades, the average over the entire section being increased more than 100 per cent.; congestion at the gathering points and at the coaling and watering stations and at the long switches has been eliminated, and what with more certain and longer time on the road between inspections, greater flexibility in dispatching, higher train speeds, higher train tonnages, etc., nine electric engines on the section not only doing what before required twenty-two steam engines equipped with arches, superheaters, and stokers, but also, in doing an unknown quantity of switch-work and westbound freight traffic, are pushing an average of two passenger trains per day up the mountain, handling an increased tonnage traffic which it is estimated would require thirty-three Mallet locomotives.

Results such as these just described, and other conditions, that impelled the officials of the Norfolk & Western Railway Company, in their annual 1915 report, to state that electrified operation "indicates that the capacity of the line has been doubled, and that the operating cost per ton-mile will be materially reduced."

It would be worth to the United States to have the railways generally hitched up to water power, the consumption of coal correspondingly reduced, and the miners transferred to agriculture and other industries.

These results are typical of progress in industry, and they indicate the other side of what some people call "social injustice" of the present division of wealth between capital and labor. The critics of the existing order take no account of the ultimate distribution which works out through the reinvestment of profits for the continued development of industry, although in fact the distribution is so broadly effective. The results which result from improved methods of supplying daily wants are delivered at every door.

It is pertinent to note in this connection that the officials of the railway orders, in presenting their claims for more pay, offer as one of the arguments that the services of the trainmen have become "more productive" than formerly, as evidenced by the increased tonnage per average train load. If this increase in the train load is due in any degree to the labors of the trainmen, the argument is good, but the idea that all the benefits of progress in a given industry belong to the persons connected with that industry will not stand. The railway men enjoy benefits from the progress that is going on in other lines of industry, and the workers in other lines should have benefits from improvements in transportation. An ideal division would give some part of the new gains to capital and labor in the industry where they originate, and some part to the public, but whatever the inequalities of this first distribution may be the secondary distribution goes far in correcting them. And yet a university professor can write a book upon "Income" without mentioning this secondary distribution.

When capital accumulations are exceptionally large, the amount seeking reinvestment will be correspondingly large, the demand for labor will correspondingly increase, and the development of industry will be correspondingly rapid, so that all the agencies for further distribution are speeded up accordingly. In other words, ultimate distribution is not a matter left to chance, agitation or benevolence, but is determined by the natural laws which tend constantly to maintain an equilibrium in affairs.

At this time the corporations which are making large profits are pursuing a very conservative course as to dividends. They are paying off indebtedness, improving their facilities, laying by reserves in interest-bearing securities and strengthening their position in every possible way. This policy makes for greater efficiency and stability in the future, and will probably yield in the long run greater permanent results to the public, and to wage-earners and shareholders as well, than a larger distribution of wages or dividends at this time.

### Influence of the War on Capital Supply.

It is a common saying that the war has upset all the theories of the economists and experts, by which is usually meant that although the use of credit has been carried far beyond any point heretofore recognized as prudent, or even possible, the vast sums have been raised with seeming ease, without exhausting the money markets and with surprisingly small effects upon security prices or interest rates. The theory that war would make capital dear is said to have been signally disproved.

Much of this comment comes from confusing capital with credit. Actual capital consists of concrete things; it is in tangible property, to wit: lands, buildings, machinery, facilities, materials; goods ready for consumption and the equipment and resources by which goods are produced or wants are supplied. Goods and materials have gone up in value, and so have machinery, ships, factories, mines, and other kinds of property which



produce commodities that are scarce or in larger demand. You cannot build a house, a railway, a ship, a dock, a dam, an automobile, or equip a factory, or print a newspaper, or make a loaf of bread, as cheaply as you could before the war. These things have become dear and they typify the real capital of the world.

On the other hand, credit is purchasing power, based at last upon these tangible resources, but is not to be confused with the real capital. The latter can only be increased by the laborious processes of production, but instruments of credit can be quickly supplied where the resources of a nation are organized for the purpose as they have been in the countries at war. The charge for credit, or purchasing power, has not gone soaring like the charge for ocean transportation, because, within limits not yet reached, credit can be manufactured over night.

Of course, the patriotism of the people, their desire to support their governments and willingness to put their resources, so far as they can be utilized, at the service of the governments, is a large factor in this use of credit.

The great note-issuing banks upon the continent of Europe, which are controlled by the governments, have been for years steadily building up their gold reserves, and they have been able to do so ever since the war began by appealing to their people to give up gold coin and receive notes in exchange. These great gold reserves have enabled the banks to largely increase their grants of credit which are made either by deposit entries or note issues. Besides the central banks there are the other banks with which the general public more largely does business. There is less information available about the unofficial institutions on the continent than about the joint stock banks of England, but the latter apparently have not increased their loans to the public above what they were before the war.

The war business to an important extent has absorbed or taken the place of peace business, so that capital and credit formerly employed upon the latter is available for the former. It is officially stated that some 3,000 industrial establishments in Great Britain have been taken under government control for the making of war supplies. Germany's steel production in 1915 was 13,187,616 metric tons, which compares with 18,187,616 in 1913. As the steel production in 1915 must have been largely for munitions, it is evident that the consumption of steel for ordinary purposes was largely reduced.

We do not realize in time of peace how large a share of the work going on is for construction and betterments. The world when at peace was moving forward rapidly, adopting new ideas, discarding old equipment, pulling down, rebuilding and making over its plant. This work has been largely curtailed not only in the warring countries, but elsewhere, and war work, financed by the governments, has taken its place.

The earnings of the people are larger than in times of peace. A larger proportion of the people are employed. The annual reports of the banking institutions of England, published since January 1st, show that a large proportion of their clerical

staff has joined the army, and that their have been filled with women; doubtless this of other business houses, and even in many industries women have taken the place of men. A recent official statement shows that 195,000 men are working in the munition factories, banks, and probably other employers as well as their enlisted employes on the payroll and make to them the difference between the army pay and their old pay; wages are generally higher, bonuses and allowances are paid and profits are larger. The *London Statist* estimates that the yearly income of the British people, by which I meant the sum of individual incomes, is now at a rate of \$15,000,000,000 per annum instead of \$10,000,000,000 as before the war. If everybody's income and expenditures were raised uniformly, savings would be no greater, but this is never the case, and although war expenditures are notretentive, much of the flow is caught up and used over and over, so that from the expenditure of money loan something is saved which comes back to the next one.

An important resource for all the countries much greater in the case of Great Britain than in others, has been the holdings of American securities. A recent number of the *London Times* contains a synopsis of an official report made to the stockholders of the Prudential Insurance Company of London at the annual meeting recently, which throws an interesting light on the process of converting these securities into war bonds. The report says:

#### SIX OMNIBUS LOADS OF BONDS

Speaking at the annual meeting yesterday of the Prudential Assurance Company (a full report of which will be found in our financial columns), Mr. Thomas C. C. the chairman, said that they offered last summer, in connection with the American Exchange, to place a large number of American securities at the disposal of the Government, the bonds, when sent to The Bank of England, made six motor-omnibus loads. The company had detached coupon sheets from the bonds in order to facilitate selling, and the adhesive paper used to reattach the coupons when the bonds were sent to The Bank of England, secured well over eight miles. More than 44,000 bonds of a nominal value of over £8,750,000 were dealt with by staff of 100 within 48 hours. When all was finished, the Bank of England found everything in order except the single coupon of the value of only a few shillings, some unexplained manner vanished. Sir William Caster, the deputy-chairman, added later that the coupons, guarded by a squad of soldiers, were taken to a place, the destination of which was kept secret, and safely in New York.

The British fiscal year ends March 31st, and at that date, a month ago, the total British debt was stated by the Chancellor of the Exchequer at £2,140,000,000, or about \$10,720,000,000. He stated the pre-war debt as £651,000,000, or about \$3,000,000,000. The increase, therefore, has been \$7,465,000,000. How have these stupendous borrowings been placed? Sir George Paish has estimated that up to March 31st about \$2,400,000,000 of foreign securities, including short-term securities, had been sold. The *London Bankers' Magazine* in its annual review of banking for 1915 gave a list of the increase of British government securities in the United Kingdom during the year at \$1,000,000,000.



0, and it may be that this does not include any bills. The sum of \$250,000,000 has been borrowed in the United States, being one-fifth of the 500 million Anglo-French loan.

These sums bring the amount otherwise to be produced to about \$3,650,000,000. There were subscriptions from the colonies and other countries, but these have been more than offset by local and allied loans on the London market. The order would have to be made up from current income and by shifting capital that had been employed in industry and trade but has been released by the government's huge disbursements. The policies that are undoubtedly practiced by a part of the population have been of help to this end, and it was estimated before the war that the total savings of the British people were approximately \$2,000,000,000 per year. These figures indicate that there would be ample funds in the United Kingdom to cover the loans raised in twenty years.

Besides these loans there have been new taxes estimated probably to \$800,000,000. There were subscriptions in important amounts to French and Russian loans, and some domestic and colonial loans that were approved by the Treasury. These, however, were not enough to alter the conclusion that the amount of capital required would be about as indicated above.

Issuings of new securities for other than governmental purposes have been practically suspended here but in the United States, and here they have been restricted mainly to refunding operations. When under these conditions governments are paying five and six per cent. for money, it will be no surprise to say that interest rates have not risen. Interest rates, of course, are low because the profusion of new credit has filled the banks with funds which they cannot employ in long-time securities, and are anxious to have earn something from day to day.

### Condition in the United States.

In the United States the bond market is slightly higher than in the early months of 1915, but not up to the level of December, 1913. This rise, however, does not signify that the market has not been influenced by the outpouring of government securities in Europe. The government issues here have had the anticipated effect of driving up the United States securities, and this has been a strong influencing influence upon prices here. That they have not declined since the war began is due to the fact that an important decline had not yet occurred, that comparatively few new securities have been issued in this market, and that our huge trade balance and domestic prosperity have been powerful supporting influences. With all other conditions the same and influences from Europe, this market would have moved rapidly. The two elements of uncertainty that have been cleared up during the past year are the degree of rapidity at which foreign countries would wish to sell our securities, and the degree of rapidity with which we would recover

prosperity in the United States. These were speculative questions in the first months of 1915, and both have been agreeably answered. Since the first alarm was sounded we have been protected from the full influence of the foreign issues by the reluctance abroad to part with our securities.

Although the various classes of investments are more or less influenced by each other, each has its own patrons who would rather accept lower rates than place their money in unfamiliar fields. This is illustrated now by declining rates on farm mortgages. Land sales have declined, due probably to a feeling among farmers, as among others, of conservatism toward new undertakings, and as farm mortgages are usually incidental to changes of ownership, the supply of mortgages has fallen off.

### Rise of Silver.

Silver is quoted in New York at this writing at 73, the highest price reached since the Indian mints were closed to free coinage in 1893, if a few months in 1906 be excepted. At the outbreak of the war it was worth about 55 cents, but under a decline in the commercial demand and falling off of exports to Asia it went down to about 47 cents in the early part of 1915. The gathering of gold coin from circulation into the issue banks of Europe created a demand for silver coin to take its place in common use, and the payments to the soldiers and increased amounts of change required to pay the workers in the munitions factories have been factors. Great Britain coined 28,000,000 ounces of silver in 1915, which is five or six times the normal amount. France, Italy, Holland and other countries have purchases unusual amounts. The revival of trade in the United States created a new demand for change in this country, and the mints resumed purchases in September last, since when about 5,000,000 ounces have been acquired. The price rose gradually to about 60 cents, but has made the remainder of the rise in the last ten days, probably as the result of governmental buying in London on a bare market. The movement to Asia is still very light and under the circumstances the advance cannot be regarded with confidence. It seems to be dependent upon the continuance of government purchases, and as these are for subsidiary coins only the amount that can be absorbed is limited.

The "Australian Argus" of recent date has the following paragraph on the subject:

The Federal Treasury is about to embark on the minting of its own silver coins. The departure was made necessary by the world-wide shortage of silver. This, in turn, is attributed to several causes, the chief of which is the tremendous increase in circulation, and, therefore, in demand, which was brought about by the activity displayed in war industries. Recently the Commonwealth Government, finding the supply of silver in Australia insufficient to meet the demand, applied to Great Britain for £100,000 worth. But Great Britain had not enough for her own needs, and was unable to grant Australia's request. The coins could not be made either at the Royal Mint or at Birmingham. The Commonwealth Treasury then asked the Imperial authorities if they would send out the dies, and so enable Australia to mint her own silver coins of the various denominations. This request was agreed to, and the dies are now on the water. The permanent head of the Treasury (Mr. Allen) expects to be



able to go straight ahead with the minting of approximately £500,000 worth of silver coins.

### Monetary Conditions.

The money market continues in a rut and bankers have given over the expectation of any material change before the fall season comes. Apparently the interior is supplied with all the cash it will need until then and the disbursements on foreign account together with the unusual profits that have been realized seem to have enabled the industries to finance themselves without the borrowing that would be naturally expected in a time of such activity.

### Stock and Bond Market for April.

The general tendency of bond prices during the month has been slightly downward. This tendency has been more noticeable in railroad bonds than in public utility and industrial issues. The average price of forty active listed bonds, as compiled by the *Wall Street Journal*, declined from 94.51 March 26 to 93.97 April 26. The decline in ten "legal" railroad issues was .70, while ten industrials declined .22, and ten public utilities .12. The decline in railroad bonds is not the result of any impairment to the railroad situation, as earnings still continue satisfactory and show an improvement over last year. Daily transactions on the Stock Exchange have been in fairly large volume, averaging \$3,350,000 to the close of business April 26, compared with \$3,023,000 in March and \$3,818,000 in February. Total sales for the month should amount to about

\$80,000,000, which compares with \$110,000,000 in April, 1915. Increased activity in the bond market began around April 1, 1915, after the period of dullness. Anglo-French 5s and the Canadian Government bonds continue the most active issues on the Exchange. Erie Railroad Convertible 4s and International Mercantile 4½s are also active.

The most important bond item during the month of April was the sale of \$55,000,000 of Long Term Stock by the City of New York. The lot consisted of \$40,000,000 stock, due April 1, 1966, was sold at an average price of 102.618, a basis of 4.13%, and \$15,000,000 serial stock, due from April 1, 1931, was sold at an average price of 101.432, a basis of about 4.03%. These prices reflect the continued demand for high grade bonds that are free of the Federal Income Tax. The last previous sale by the City, which was in 1915, \$46,000,000 long term stock sold on an average of 4.43%, and \$25,000,000 serial stock on an average of 4.297%.

The remaining \$20,000,000 Armour & Co. First Mortgage 4½% bonds, out of the authorized issue of \$50,000,000, have been sold by the company, and are now being offered to the public at 93¾. These bonds have long been a favorite industrial issue with investors, and have a good market on the Exchange, and are extremely well secured by property and earnings.

Provision was made for the payment of \$100,000 New York, New Haven & Hartford

## STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS APRIL 28, 1916. (In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco
Gold coin and certifs. Settlement fund. Cr. Balances	6,123	140,410	9,416	11,807	4,865	6,081	33,545	4,686	3,632	4,307	3,836	5,596
Gold Settlement Fund.....	9,774	9,689	5,652	7,716	8,721	3,079	7,064	5,075	4,612	4,336	8,610	1,093
Gold Redemption Fund ..	5	250	50	23	234	337	200	11	30	71	236	10
Total gold reserves..	15,902	150,349	15,118	19,546	13,820	9,497	40,809	9,772	8,274	8,714	12,682	6,699
Legal tender notes. Silver certifs and Sub. coin....	56	4,509	1,862	959	123	211	1,921	370	517	151	811	18
Total Reserves.....	15,958	154,858	16,980	20,505	13,943	9,708	42,730	10,642	8,791	8,865	13,493	6,717
Bills discounted. Members Commercial paper .....	331	411	581	262	6,309	3,584	1,744	541	656	1,667	4,931	431
Bill bought in open market	10,904	17,747	7,057	1,924	480	752	3,153	1,327	1,138	986		2,117
Total.....	11,235	18,158	7,638	2,186	6,789	4,336	4,897	1,868	1,794	2,653	4,931	2,548
Investment U. S. Bonds...	3,077	2,550	3,538	4,600	1,295	2,033	8,423	2,959	2,273	8,736	2,841	3,516
One-year U. S. Treas. notes	250	1,532	462		456			380	350	410		
Municipal Warrants.....	2,466	15,493	3,319	4,977	60	6	4,528	1,237	1,619	1,010		2,218
Total Earning Assets	17,028	37,733	14,957	11,763	8,600	6,375	17,848	6,444	6,036	12,809	7,772	8,282
Federal Reserve Notes, net Due from other F. R. Banks net.....	934	9,630	153	426		1,186	1,635	1,001	1,429			5,210
All other resources.....	1,877	299	191	835	2,892	234	1,484	2,706	2,297	1,410		3,555
	62		103	324	78	843	551	294	136	694	873	276
TOTAL RESOURCES.....	35,859	202,520	32,384	33,853	25,516	18,346	64,248	21,087	18,689	23,778	22,138	24,040
LIABILITIES												
Capital Paid in.....	4,950	11,299	5,216	5,948	3,346	2,408	6,670	2,788	2,571	3,002	2,669	3,026
Government Deposits.....	2,072	8,186	2,815	733	6,424	7,054	1,493	2,630	434	1,286	5,769	1,764
Reserve Deposits, net.....	28,823	180,448	24,353	27,172	11,545	8,773	56,085	15,669	15,684	16,733	9,857	17,869
Federal Reserve Notes-net Federal Reserve Bank Notes in circulation.....					4,156					1,088	3,607	
Due to other F. R. Banks net.....		2,587			45	111					236	481
All other Liabilities.....	14											
TOTAL LIABILITIES.....	35,859	202,520	32,384	33,853	25,516	18,346	64,248	21,087	18,689	23,778	22,138	24,040

(a) Total Reserve notes in circulation, 163,094.

(b) After deduction of items in transit between Federal Reserve Banks, 14,658, the Gold Reserve against Net deposit and note is 89.5% and the cash reserve is 72.2%. Cash Reserve against net deposit liabilities after setting aside 40% Gold Reserve against liabilities on Federal Reserve Notes in circulation, 72.8%.

(c) Maturities of bills discounted and loans: within 10 days, 9,153; to 30 days, 15,291; to 60 days, 27,688; other maturities, 16,933,69,033.



5% notes, which mature May 1st, by the sale of \$5,000,000 1-year 4½% notes. The balance of the notes will be provided for by the earnings. The ability of the New Haven System to accomplish its financing by the sale of 4½% notes reflects the progress made in the rehabilitation of the company's credit. The notes are secured by valuable collateral that is important to the New Haven System.

Other large offerings during the month include \$10,000 Sulzberger & Sons Co. First Mortgage \$4,000,000 Empire Gas & Fuel Co. 6s, and \$10,000 Northern State Power Co. First and Second Mortgage 5s.

Stock prices declined sharply in the latter part of the month. The break was more pronounced in iron and steel than in the railroads. The average price of the twenty railroad stocks fell to 99.11 on April 22, compared with 103.73 March 15, and 12 industrials to 92.92 compared with 125.29. These declines were largely the result of pending negotiations with the European governments.

### Reserve Bank Notes.

Attention was made in this publication last month to the criticism directed at certain of the Federal Reserve banks for exercising their right under the Federal Reserve Act to issue currency upon holding of two per cent. government bonds. These actions are upon precisely the same terms as the issue of national banks, but the action has been widely criticised as tending to inflation, the country already having a plethora of money.

The policy is defended by an able official of one of the Reserve banks on the ground that to buy government bonds and not use the circulation privilege, or to convert the twos into threes and retain the latter, is the effect of invading the bank's rediscount privilege, which is an unwise thing to do. He also states that it is good policy to familiarize the public with this new form of currency in normal times when no disturbing question will be raised by the action. He is of the opinion that the Reserve banks should only purchase twos to the extent they are required under the law to do so.

The carrying of bonds without circulation issues unquestionably impairs to that extent the capacity of the reserve bank to take rediscounts. Moreover, the use of these bonds may be used to acquire currency which clearly would not weaken the bank or cause inflation. However, it seems that with the demand upon the Reserve banks for re-

discounts as there is at the present time, there is nothing to be gained by issuing the new form of notes, and the policy of issuing them is open to question. Furthermore, by converting the twos into three per cent. notes and bonds a start is made toward their final elimination. Presumably the Treasury will take up the three per cent. notes as soon as it has the funds to spare, and the three per cent. bonds can be sold in moderate amounts to the public.

It is evident that the two per cent. bonds purchased by the Reserve banks practically all came from the national banks, and had been in use as the basis of circulation. The full amount of national bank circulation which may be retired in one month under the law is \$9,000,000, and applications to cover this amount in April were filed on the first day of the month. The full amount was also covered in March and February.

The circulation of all national banks on March 7th, as reported by themselves under the call of March 7, was \$695,000,000, which was \$17,000,000 lower than on December 31, 1915. These are net figures, after deducting the amount of lawful money paid into the Treasury for the retirement of circulation. The public debt statement for April 1st showed that the Treasury had assumed the redemption of \$46,532,583 of outstanding bank notes.

### Discount Rates.

*Discount rates of each Federal Reserve Bank in effect April 29, 1916.*

	MATURITIES				Agricultural and live-stock paper over 90 days.	Trade acceptances.		Commodity paper.
	10 days and less.	over 10 days to 30 days, inclusive.	over 30 days to 60 days, inclusive.	over 60 days to 90 days, inclusive.		To 60 days, inclusive.	Over 60 to 90 days, inclusive.	
Boston.....	3	3½	4	4	5	3	3	A 3½
New York.....	3	4	4	4	5	3½	3½	...
Philadelphia..	3	4	4	4	4½	3	3	A 3
Cleveland.....	3½	4	4	4½	5	3	3	...
Richmond.....	4	4	4	4	5	3½	3½	A 3½
Atlanta.....	4	4	4	4	5	3½	3½	B 3½
Atlanta New Orleans br.	...	...	...	...	...	C 3½-4	C 3½-4	...
Chicago.....	3½	4	4	4½	5	D 3	D 3½	3
St. Louis.....	3	4	4	4	5	3½	3½	3
Minneapolis...	4	4	4	4½	5	3½	3½	3
Kansas City...	4	4½	4½	4½	5	3½	3½	3
Dallas.....	4	4	4	4	4½	3½	3½	B 3
San Francisco	3	3½	4	4½	5½	3	3½	E

A Rate for commodity paper maturing within 90 days.

B Rate for bills of exchange in open market operations; Atlanta 3½-5½; paper bought, Dallas 3-5.

C Rate for trade acceptances bought in open market, without member bank indorsement.

D A rate of 2 to 4 per cent for bills with or without member bank indorsement was authorized on Dec. 21, 1915.

E Rate for commodity paper maturing within 30 days, 3½ per cent; over 30 to 60 days, 4 per cent; over 60 to 90 days, 4½ per cent; over 90 days, 5 per cent.

**THE NATIONAL CITY BANK OF NEW YORK.**





1916

# U. S. SECURITIES GOVERNMENT FINANCE ECONOMIC AND FINANCIAL CONDITIONS

NEW YORK, JUNE,

## The Business Situation.

**T**HE business situation has changed but little in the last month, and confidence in the future has not weakened. Bank clearings in manufacturing districts of the east are forty to sixty per cent. higher than a year ago, and in the cities more directly related to the agricultural interest twenty to forty per cent. Railway traffic could hardly be heavier with present facilities. The congestion is reduced to an extent that permits of a fairly expeditious movement of consignments, but there is still much unloaded freight at the terminals and a shortage of cars.

The fundamental conditions, which include full employment of the people, and an enormous production of commodities from original sources, were never better. Agricultural products and mineral products never before brought prices that were so remunerative to the producers, and the number of people directly engaged in these industries is very large. The lumber industry is also prosperous, although not to the extraordinary degree enjoyed by agriculture and mining. Manufacturing in practically all lines is working up to the limit of the available labor supply. Judge Gary, of the United States Steel Corporation, last week described conditions in the steel industry by saying that the orders being booked still more than covered the current production, and that business for fully a year ahead was in sight.

Building operations on a large scale are held in check by the high cost of materials, but there has been enough work of an emergency character to provide general employment in the building trades, and a large amount of work is in contemplation and will be released by a decline in prices.

There is a calmer, more conservative tone in all quarters, without any real let-up of activity. The labor troubles of May 1st have been adjusted for the most part, wage advances being numerous. In the machine-building trades, at Pittsburg and through the Ohio valley, there has been a serious controversy over the eight hour day, which the manufacturers vigorously opposed as unnecessarily restricting the output when an unusual volume of business was in

sight. They appear to have defeated the movement.

It is evident that the whole country is doing business with a full appreciation of the present conditions are extraordinary and substantial change, and yet with a large degree of confidence in the future. There has been overprompted by rising prices and fear of inability to get goods later, and this in some degree explains the unprecedented demand. Since these purchases have come back upon the market, and more may do so as the time to the deliveries approaches, but the consumption of staple articles of comfort is on a scale unequalled before. In lines in which production is being increased to take the place of supplies, prices are tending downward, some lines in which high prices have ruled the public market regular customers are served at but little above normal figures.

There is general recognition of the probability that a readjustment of prices will have to be made at a lower level after the war is over, and nobody intends to enter that period without stocks if he can help it. If stocks are made it is believed that the readjustment will be hard to make, for nobody expects prices below the pre-war level, or even quite to the stocks of staple goods are low all over the country and there can be no long-sustained cessation of buying. In this country it is evident that the amount of construction work is being held back by the high prices. The railways are still doing as little as possible, for either equipment development, owing to the scarcity of labor, or the high price of steel, but they are assured of earnings for a considerable period, and will eventually disburse large sums to make good wear and tear of this heavy traffic and to improve their facilities to meet the growing requirements.

The crop season has been a little backward, but the soil has taken in a good amount of moisture, which is the most important factor in the crop. The acreage of wheat is reduced, but the country has carried over large stocks, and the trade thinks of the prospects for the future supply may be judged by the fact that the price is 30 cents a bushel below what it was in the latter part of January. The corn acreage is large, and there is an evident determination



farmers to get back to more cattle and on the farms. Unfortunately, the stock of is steadily dwindling, as the large ranches ken up. The cotton acreage is eight or cent. higher than last year and the plant ted doing very well.

rnment revenues are increasing and from taxes are exceeding all records. The in- x collected in this fiscal year is expected a \$110,000,000, as against \$80,000,000 last Reports from Washington indicate that inferences among congressional leaders sulted in an understanding on the new s to be required, probably \$150,000,000 um, will be provided by super taxes upon taxes upon inheritances and taxes upon ns.

### Money Market.

reduction of bank reserves in New York, as been going on steadily since the latter January, has about reached the point where have some influence upon interest rates.

Clearing House statement shows the sur- vrn to \$67,733,000, which compares with 7,700 on January 29th. This reduction is due small degree to loan expansion. Loans have d in the four months by \$118,000,000, and ponding increase of deposits without change reserves would have reduced the surplus by 1,000,000. The change has been effected in n by a loss of reserve cash, which has om \$523,753,000 on January 29th, to \$422, on May 27th. A large part of this went Treasury, the payments of the Clearing o the sub-treasury on balance from Feb- to May 29th aggregating \$74,331,325.88. ave been some exports of gold from New the West Indies and South America, and gregation of gold for account of foreign institutions. The movement to the in- s absorbed the remainder, and enough more the importations from Canada.

ents into the sub-treasury during the month will be unusually heavy on account of the tax, and as most of the banks are now ose to the 18 per cent. reserve limit, it may ted that the price of money in this market nngthen. There were pronounced symp- this last week.

money, however, has not gone out of this or been permanently absorbed. After July government revenues will fall off and ex- es will be greater than income, and while ments are not made in New York to the tent as collections, when made in any part country they will affect the general situa-

terior is in a state of great financial ease, n the interior reserve centers have been upon but slightly by country banks for the ctivities. While nobody expects anything t money this year, the opinion strengthens s will be higher.

### Foreign Trade and Exchange.

For the four months of this calendar year end- ing with April, the exports of the United States exceeded imports by the sum of \$738,607,394. This rate, if maintained throughout the year, would give an excess in 1916 about \$500,000,000 greater than that of 1915, and the question of how settle- ment for this vast accruing balance is to be made remains as interesting as ever. The expenditures of American tourists in Europe are no greater than last year, and the payments by this country on account of dividends and interest are considerably smaller than last year, for not only have many American se- curities been returned to this country, but there are important offsets of the same kind, as a result of the foreign loans made here during the last year.

London and Paris exchange has remained fairly steady during the past month, but the transfer of gold from the British store in Canada has been re- sumed, and during the month amounted to \$23,- 200,000.

It has always been supposed that, if the situation required such action, the British government would resort to taxation as a means of compelling British investors to dispose of their holdings of American securities, and this step has now been taken. No- tice has been given that a special tax of two shil- lings to the pound sterling will be levied upon all income from foreign securities which the govern- ment has offered to purchase, which amounts to an extra tax of ten per cent. It is assumed from this action that the offerings to the government, which came first from corporations and other large holders, have fallen off of late, and that the Treas- ury believes important amounts are still held in the country. Although the Treasury has been mak- ing sales from time to time in the New York mar- ket, it is not believed to have anywhere near ex- hausted its acquisitions, and the new announcement probably does not foreshadow unusual offerings here. The securities are wanted as a sure means of creating offsets in New York against the enor- mous purchases which the Allies are making, and they will be sold or used as collateral here, as credits are required. Meanwhile the current pro- duction of gold in British territory is about \$20,- 000,000 per month, and this also is available for the same use. The holdings of the Bank of England are larger than a year ago, and this is true of the Bank of France also.

The British government has modified the terms of its offer to borrow American securities, so that in the event it becomes necessary to sell them the depositors will have the privilege of purchasing them.

The French government has followed the policy of the British government in mobilizing privately- owned securities to be used in creating foreign credits. Owners are invited, in the national interest and as patriots, to lend their securities to the gov- ernment for one year with an option to the govern- ment to retain them from year to year to the end of the third year. Negotiable certificates will be given in exchange, owners will continue to receive interest or dividends and will be given a bonus



equal to one-quarter of such regular returns. Thus the lender of a four per cent. bond will receive five per cent. The offer applies to investments in neutral countries.

This action is understood to be preliminary to negotiations for a secured loan in the United States; at present French negotiations here are suspended.

One of the anomalies of the international situation developed by the war has been the action of the three Scandinavian countries in altering their banking laws to relieve the central banks of issue from the requirement to buy gold at a fixed price. This requirement is designed to facilitate gold importations, and it has seemed extraordinary for a country in a period of world disorder to withdraw any such facilities, even though economists clearly recognize the dangers of gold inflation. It would certainly be a difficult matter to get the Congress of the United States to pass any legislation of that kind.

A Christiana correspondent of the London Economist explains that the legislation was passed at the suggestion of the Scandinavian banks, not because these Banks do not want more gold, but because they wish to procure the necessary amount at the lowest possible price. "Why," says the writer, "should the Bank of Norway pay the price hitherto prescribed by law when it can procure gold from England or the United States six per cent. cheaper?"

This correspondent says that the stock of gold in the Bank of Norway on January 22nd was 114 million kroner, and that on April 22nd it had risen to 194 million kroner. This accretion is due to the enormous payments coming to Norway for ocean freights and its exports of fish and other articles. He adds: "The Norwegian kroner at the present moment has the proud position of having the monetary values of the entire globe under par with respect to its own value."

#### The Bond and Stock Market for May.

Bond prices during the latter part of May have improved all along the line, and contrary to the tendency in recent months, railroad bonds have shown as great an improvement as industrials and public utilities. The advance is especially noticeable in several second grade railroad bonds. This improvement has been aided by record railroad earnings, advancing market in railroad stocks, slackening in pressure of foreign liquidation, increased resources of American investors and a general absence of undigested securities. The advance in listed bonds has been accompanied by larger sales on the New York Stock Exchange. Daily transactions have reached over \$5,000,000, and have averaged for the month about \$3,876,000, compared with \$3,307,000 in April, \$3,023,600 in March and \$2,571,000 in May, 1915. Total bond sales for the year on the Stock Exchange to the close of business May 25, were \$449,000,000, against \$398,000,000 in 1915. The proportion of State and Government bonds dealt in this year has been larger than usual, owing to the large sales in Anglo-French 5s.

The supply of new securities for this year to

May 22, as figured by "The Annalist" issues for refunding purposes, has been 743,000, compared with \$1,053,019,000 same period in 1915. As the investment has been much greater this year than probable that without the overhanging of foreign liquidation and the caution of American investors concerning conditions after the war, the rise in the price of grade bonds would have been more prolonged as the price of credit remains at current rates, there is no necessity for business and institutions to liquidate their bonds. Although business activity continues at the importations of gold furnishing the basis of credit and the reduction of the requirements following the adoption of the Federal Reserve System have easily furnishing reserves sufficient to take care of increased commercial activity without any notable rise in money rates.

The largest refunding operations for \$13,973,000 Delaware & Hudson convertible and \$24,773,000 Missouri Pacific Extension notes. The Delaware & Hudson bonds provided for several months ago, and held Missouri Pacific notes have been asked for an extension for six months. The maturities consist mostly of equipment, public utility and industrial issues which already been provided for, and in the market cause no anxiety.

New financing during the past month unusually light, and hardly equal to the investment demand. An additional block of 1,000,000 New York Connecting Railroad 4½% bonds have been taken by New York. The bonds, in addition to being a first on the connecting line between the Pennsylvania and the New Haven, are also guaranteed both principal and interest by these companies.

Greater interest is being shown in foreign securities than has been usually the case with American investors. While this is a favorable sign, and will indirectly aid the export of American trade, it is necessary that discretion be used in purchasing only securities of sound enterprises. The foreign fields offer many opportunities for investment, which will gradually become more appreciated by our people, but that such investments do not fall into disrepute it is necessary that purchasers exercise care to secure conservative issues. These investments on the part of Americans, together with the purchase of securities from Europe and loans to foreign countries, are going to tend to lessen our remittances in the future from dividends and will decidedly help to balance the invisible, unfavorable trade balance.

The stock market has been active during the latter part of the month, following a dullness in the early part. Sales reached 1,000,000 shares May 19th for the first time since March 14th. The activity has been pronounced in the railroads, which are now



an unusual period of advancing gross income. The operating expenses, due to higher materials and increased wages are also but not enough to consume all the increase. These advances in expenses form an element of danger in the railroad situation as they will be correspondingly reduced when gross income rises. The motor stocks have attracted a great amount of attention, owing to the present prosperous condition of the industry. Speculation in these stocks has also been fostered by the successful financial reorganization of seven companies during the last six months.

#### Hawaiian Bonds.

During the month of May the Hawaiian Government sold \$1,750,000 Hawaiian 4% bonds of 1936. They were issued to refund \$1,000,000 Hawaiian 4½% bonds of 1910-20 and \$750,000 Hawaiian 4½% bonds of 1908-18. According to the statement issued by the Treasury Department, there are, at the present time, approximately \$10,000,000 of various Hawaiian bonds deposited in the Hawaiian Bank as collateral for public moneys lodged in national banks throughout the country. A large number of these undoubtedly consist of the bonds which have been called for payment. In addition there are undoubtedly quite a few of the bonds held in Washington as collateral for savings funds. As the interest on the latter has ceased on May 20th the owners should take prompt action to substitute other acceptable securities for them.

#### Savings Banks.

The postal savings bank act has been amended in many details, the most important of which is the minimum limit upon interest-bearing accounts, reduced to \$1,000. Permission is given for the use of these funds in banks not members of the Federal Reserve system in case there are no members in the locality willing to receive them upon the terms fixed in the law. The provision for security is amended to include, besides public securities supplied by the taxing power, "other securities authorized by act of Congress," which was stated in the floors of Congress to particularly mean mortgage debentures, under the proposed Federal Credits law.

Postal savings deposits now aggregate about \$100,000,000, which is indeed a very considerable sum, but hardly fulfills the expectations of the promoters of the system, who claimed that hundreds of millions would be brought to light from the postal savings fund.

#### New Shipping Bill.

The new shipping bill, which has now passed the House, is quite different from the one over which a prolonged contest occurred last year, but it has no stronger appeal to the shipping interest than the previous measure. In deference to the opposition to government ownership this measure provides that the bill shall be in the form of a law, and to the

which the government is authorized to subscribe \$50,000,000, shall be dissolved and its ships sold within five years from the end of the European war. The government's investment is therefore, to be temporary, but a permanent Board of Shipping Commissioners is to be created, composed of the Secretary of the Navy, the Secretary of Commerce and five members appointed by the President with the advice and consent of the Senate, the appointed members to receive a salary of \$10,000 per year. This Board is to have powers over common carriers by water analogous to that exercised by the Interstate Commerce Commission over the railroads. It will review all agreements between carriers and have authority to modify them and to fix rates.

There can be no dissent from the view that the United States ought to have more shipping under its own flag, and it would have been supplied long ago, but for laws which have made it much cheaper to use transportation facilities under other flags. Congress is apparently of the opinion that this state of affairs can be remedied by more restrictive legislation.

The government's investment of \$50,000,000, can hardly be an important influence in the situation. The supply of tonnage can only be increased by the construction of new ships, and all the shipyards of this country, now, have their capacity sold out for more than a year ahead. The navy yards will be fully occupied also, with the construction program carried by the pending appropriation bills. It is altogether probable that before the government can provide any new ships ready for use the war will be over, and ships acquired in the meantime are very likely to entail a loss.

In normal times the business of operating ships in the carrying trade of the world is highly competitive. In the nature of the business it can be brought under the supervision of this government in only limited degree, and American ships must conform to the competitive conditions. There are various reasons why it is impracticable for ocean charges to be given the stability of railway rates, and the situation in many respects is so complicated as to make regulation by rule very difficult. It is urged that a government board will take all of the conditions into consideration and deal with them in a practical manner, and perhaps it will, but it can hardly be expected that government supervision will make the shipping business more inviting to investors. Private capital will distribute itself in the various fields according to the view that investors have of the opportunities for profit. They have not been attracted by the opportunities for profit in ocean shipping in the past, and this bill does not simplify the problem.

#### Silver.

The price of silver is down from the high mark of a month ago, New York quotations being now between 68 and 70 cents per fine ounce. With any assurance of permanence this price would stimu-



late silver mining and symptoms of new activity are appearing. Silver production in recent years in the United States has been mainly as a by-product of copper and lead, the Anaconda copper mine being the largest silver mine in the country.

Silver as a standard money metal had its first serious backset when the German empire was formed and the independent monetary systems of the German states gave way to the imperial system, with gold as the standard. The old silver coins were called in and melted, and much of the bullion sold. About the same time, in a revision of the coinage laws, the silver dollar was dropped as a standard coin of the United States, leaving the gold dollar as the sole unit of value. This action was of little practical importance at the time, as the country was using nothing but paper for money, but with the passage of the resumption act and the continued decline of silver it became a matter of great financial and political importance. The Comstock Lode in Nevada was making its bonanza output, and the supply of silver on the markets of the world was so great that it could not be absorbed at the old parity with gold, which had been about  $15\frac{1}{2}$  to 1 at the mints of Europe and 16 to 1 in the United States. In 1873, Belgium, France and the Scandinavian union suspended the coinage of silver as standard money, and in 1875 Italy and Holland followed suit.

The resumption of specie payments was to take place in the United States on January 1, 1879, and in 1878 the House of Representatives passed an act providing for the restoration of the silver dollar to our monetary system, and for its free coinage along with the gold coins at the ratio of 16 to 1. This would have given a coinage value to silver on private account of \$1.29 per ounce, while the market value at the time was about \$1.20 per ounce. The Senate amended the House (Bland) bill by providing for the purchase by the Treasury of from \$2,000,000 to \$4,000,000 worth of silver bullion per month, for coinage into dollars, on government account. This act, known as the Bland-Allison act, continued in force until 1890, by which time the market value of silver bullion had fallen to 96 cents. In 1890 the Sherman act was passed, increasing the silver purchases to 4,500,000 ounces per month, and under the stimulus of this legislation the price rose to \$1.21 per ounce, but soon fell back below the price prevailing when the act was passed. The average price paid by the treasury in 1890 was \$1.104 per ounce; in 1891, \$0.989 per ounce; in 1892 \$0.875 per ounce, and in 1893 \$0.804 per ounce. In June, 1893, the mints of India were closed to the coinage of silver on private account, and on the 30th of that month the price in New York fell to the lowest figures known up to that time, \$0.664 per ounce. A few months later Congress was convened in extra session by President Cleveland for the repeal of the Sherman act, and the bill to that effect became a law on November 1, 1893. Since the bullion acquired by that act was exhausted no silver dollars have been coined.

The world's production of silver was tailed by the falling price, owing to improvement in mining methods and metallurgical processes even more, to its increased production in common with other metals. The world's production was 153,000,000 ounces, and it has not been as that in any year since. In 1913 it was estimated at 223,907,000 ounces, and although figures for 1915 are not yet available, opinion places the yield for that year at 1,000,000 ounces.

The four leading countries in 1913 were with 70,000,000 ounces, the United States with 67,000,000 ounces, Canada with 31,500,000 ounces, and Australia, with 18,000,000 ounces. The United States normally produces approximately one-third of the world's silver, and it is probably yielding about half its normal production at this time. The United States and smelters in the northern part of the country are closed, but those in the southern part are working actively.

The exports of silver from the United States in the ten months ending with April exceeded imports by \$20,707,245, which compares with a surplus of \$19,096,387 in the same months of the previous year and \$18,731,765 of the fiscal year 1914.

The immediate cause of the rapid rise in the price of silver have heretofore explained, is the imperative demand from the mints of Great Britain, France and Russia for bullion for their subsidizing. The British mint coined \$39,000,000 worth of silver in 1915, as compared with an average of \$5,000,000 in the last ten years of less than \$5,000,000. The French mint which ordinarily coins from \$1,000 to \$2,000,000 of silver annually will coin ten times as much. The explanation is found in the fact that these countries are endeavoring to conserve the use of gold by holding it in reserve, and the public takes more kindly to silver than to paper currency.

In addition to the European demand there has been from India, which has been light since the break of the war, has been increasing in recent months. Large shipments have been made from Chinese stocks, but these are now light. The purchase has been recently announced of 100 million Philippine pesos to be melted for silver coinage. Presumably these are of the first Philippine coinage, which was retired in 1906. The spurt in the price of silver carried the bullion above the face value.

All that can be said about the silver situation is that it is created by the war conditions in Europe and Mexico, and cannot be considered as permanent. It is improbable that any of the European countries will reinstate silver as standard metal with gold; there are too many practical objections to the double standard. When the war is over the countries with issues of paper currency will have them reduced by conversion into interest-free bonds, and will doubtless bring the paper back to approximately the gold parity as possible.

The rise of silver is beneficial to China.



and prices are in silver currency, increasing purchasing power of the people, and will be outside trade with that country if in conditions are not too unsettled to prevent normal effects. Reports from Japan indicate influence is already noticeable. In May the exportation of silver from Mexico was prohibited for a few days, but this order was repealed by an export tax, the burden of which of course upon the Mexican producer.

### Banks Abroad.

Every foreign branch of this Bank was opened in 1901, at Santiago, Cuba, and arrangements were then completed for the opening of others at Valparaiso, Chile and Genoa, Italy, at an early day. Branches are also determined upon at Bahia, Brazil, and Milan, Italy.

The International Banking Corporation, which is affiliated with the Bank, now has branches in London, Bombay, Calcutta, Canton, Singapore, Hankow, Hong Kong, Peking, Shanghai, Yokohama, Kobe, Manila, Panama, Colon and Medellin (Colombia).

### With South America.

Trade between the United States and South America is now showing a good degree of expansion, notwithstanding the many difficulties attending upon efforts over sea at this time. Freight charges are high and vessel room is scarce, and it is difficult to get for bulky freight like lumber and other goods, the sale of which might be largely increased. Exports make a better showing than imports. For the eight months ending with August, 1915, to \$239,424,555, compared with \$138,710,000 in the corresponding months of 1913-14, before the war. Our exports for the same eight months to all South America were \$112,710,108, against \$89,410,238, in the corresponding months of 1913-14. It should be considered that our exports might be a great deal better if our merchants were ready to take advantage of the opportunities now existing. The revival of trade with South America has been so rapid and general since the last fall that American manufacturers have been kept busy by old customers and had no inducement to look abroad for new ones. Merchants are not indifferent to the possibilities of the South American market, and not a few of them are liberally making sacrifices to maintain and enlarge their acquaintance there, confident that in the long run it will pay. Business conditions over South America are gradually improving. Our cable from Buenos Ayres received last week gives the imports of that country from the United States for three months, 52,000,000 gold pesos, and exports for same months to all countries, 27,000,000 gold pesos. This is about the ratio maintained for the year 1915. Brazil exported \$257,000,000 worth of products and imported \$146,000,000. This one-sided trade shows that both countries are paying foreign bills in cash.

### The Federal Reserve System.

The Federal Reserve Board, after cautious approaches, has finally determined to deal in a conclusive manner with the matter of check collections, recognized from the first as the most difficult problem connected with the inauguration of the Federal Reserve System.

The rapidly increasing use of the personal check for payments at a distance has been a source of perplexity for years, and bankers have pondered over how to deal with the abuses of the practice without being able to reach any common ground. It has been generally recognized, however, that the present system, or want of system, under which personal checks to the amount of many millions of dollars were constantly floating about the country in the mails, traveling by circuitous routes, multiplying bank entries, inflating deposits, and counting as bank reserves, was not only costly and inefficient, but a source of weakness in the banking situation. Whatever may be said in favor of moderate exchange charges, and much may be said in justification of them, the workings of the old, unregulated, system were unsatisfactory, and it was inevitable that in any attempt to give a closer and more effective organization to our banking system, this question of clearing checks and regulating exchange charges would be considered.

The original purpose of the authors of the Federal Reserve Act seems to have been to make checks a circulating currency, absolutely good at par everywhere, without recognizing that transfers of money may be necessary for the settlement of balances. The provision allowing a charge to cover actual cost was prudently added after the introduction of the bill.

The Federal Reserve Board has now taken action, as authorized, to provide as complete a clearing system as can be devised under its authority. Each Federal Reserve Bank will receive at par from its member banks, checks drawn on all member banks, whether in its own or another district, and also checks on non-member banks where they can be collected at par. As rapidly as possible the system will be extended to include non-member banks. All member banks will be required to remit for their own checks at par, but where it is necessary for them to ship lawful money or Federal Reserve notes, because of inability to draw on the Federal Reserve bank or furnish offsets, this may be done and the expense charged to the Federal Reserve bank.

Checks remitted to a Federal Reserve bank will not count as reserve or be subject to check until collected. Unless it is claimed that the required cash reserves are unnecessarily large it must be conceded that this rule is a sound one. This "float" if permitted to count as reserve, would all come out of the cash of the reserve bank and would seriously impair its strength. The reserve required to be kept in the reserve banks by the members outside of the reserve and central reserve cities will



be only five per cent. of their deposits when the law is fully in effect.

The cost of the collection system will be charged back to the members upon the basis of volume of business handled.

The new regulation will take effect July 15th, next.

### Effect of the Plan.

The regulation will put into effect a simple and direct clearing system between the banks included in the Federal Reserve System, and do away with exchange charges between these banks. It also does away with the practice of counting checks in the mails as reserve. It cannot be questioned that these are improvements in banking practice, but the old practices have been long established, the banking business has developed under them and is adjusted to them, and the changes will seriously affect the earnings of many of the smaller banks. It should be said, however, that a great many banks of the same class as those which object to the regulation, do not object to it, but approve of it as sound policy.

The use of the check is established, it is a convenience appreciated by the public, and as such a most influential factor in the development of the banking business. It is good banking service to facilitate its use, and for the banks to co-operate with each other in a systematic manner to that end. They have not been able to do so in the past and never will be able to do so without having the terms regulated by some common authority. It will hardly be questioned that reluctance to give up the charge upon a bank's own checks is chiefly due to the fact that it is a charge paid by a stranger instead of by a customer, and this very fact makes the practice subject to abuse.

The Federal Reserve Act was designed for a large purpose, to wit, to bring the banking units of the country into an organization which would be capable of affording protection from the peculiar perils to which the business is naturally subject and also enable them to more effectively serve the public. Notwithstanding differences over details of the system there is almost universal agreement that it has the powers to accomplish these main purposes, and this being so the situation calls for patient and loyal co-operation to this end. It is obviously impossible to change long-established methods in order to bring about such co-operation without some unwelcome effects. The banks in the larger cities, which have performed the functions of reserve agents, are radically affected by the new system, but they have accepted it in good faith and are supporting it because they believe it will give a unity and efficiency to the banking system which it did not have in the past and which is of vital importance to all business interests.

It is of course, necessary that the banks of every class shall make adequate earnings upon their capital and be fairly compensated for every kind of service. While the readjustments are going on some of them may be unfavorably affected, but

the volume of business is growing constantly and that in itself will remedy some of the ills complained of. If income is reduced from one by a rule which applies to all banks, the result will be for all to seek compensations elsewhere, and under such conditions they are bound to find it, even though competition be sharp.

The Federal Reserve System is undergoing passing through its critical period at the present time. There has been little opportunity to show its usefulness, and it has been a burden to the banks, and a factor, in a period of low earnings. This, however, is too large an enterprise to be judged hastily, or to be acted upon from the standpoint of individual interests. The Federal Reserve System is something to be supported, modified and perfected, but without a thought of abandonment. If the bankers of the country do not agree together to do this, how would they ever get together to make a new beginning?

### Increased Earnings.

The total earning assets of the Federal Reserve banks on May 27th were \$173,801,000 against \$30,041,000 on May 28, 1915, and \$398,000 on December 30, 1915. It is a very moderate change in the money toward higher rates all of the reserve banks are able to earn and pay dividends upon capital.

On May 16th another payment of reserve the system took effect, and reserve deposits increased from \$413,000,000 on April \$476,600,000 on May 27th, and total cash from \$323,193,000 to \$359,111,000.

### Farm Mortgages.

In our May Bulletin, referring to a dearth of farm mortgages on the market, the fact that comparatively few farms have been changing hands, the conclusion was drawn that farm mortgages are "usually incident to changes of ownership." Possibly the former statement was too sweeping, but at any rate drawn out an interesting letter from Mr. J. H. Sherer, Vice-President of the Northwestern Life Insurance Company, of St. Paul, who writes us as follows:

On reading the above we were struck by the conditions in our locality did not conform to the statement you made and in order to confirm this, we had some statistics prepared which are interesting to us. We give them below, as we think also find them of interest as being indicative of conditions in our territory. For our purposes we examined mortgages covering about \$1,000,000 face amount of loans by us early this year in Minnesota, North and South Dakota and Montana. The average amount of each was approximately \$3,800.

We have divided the purposes for which the loans were made into five classes as follows:

1. On account of change of ownership, 15% of contracts recently purchased and 4% for contracts made some time previously. We will see that only about 19% of the loans were on account of change of ownership.



For improvements. This includes all loans made for improvements only. The loans made on this account were 17%.

In this division we have placed the loans which arise through the renewal of existing mortgages and in addition thereto the needs of funds for improvements or live stock or both. The educational campaign which has been carried on among farmers of this section for some years looking toward the increase of live stock has no doubt caused this demand for funds. This division covers the total.

For outside investments a few loans are made for the purpose of investing funds in outside operations. From the list we have selected 5% of the whole for this reason.

Renewals of old loans. In our territory this is a reason for the making of a large proportion of the loans and is shown by the fact that 43% were negotiated on this account. We might say incidentally that these renewals the majority are made for the same purpose as the old loans. Probably only 25 or 30% of the above amount were for a lesser amount than for previous mortgage.

A large proportion of the above loans were made in North Dakota and Minnesota, probably 80% of the total. As to the borrower averaged from 5½ to 7%, the interest being close to 6¼% for funds. These were in the hands of the investor at from 5 to 6%, an average of about 5½%.

Our analysis of approximately \$1,000,000 in mortgages we believe to be an average list, and is fairly representative of conditions throughout the Northwest.

We appreciate that conditions in other sections are quite different and that in the Central West mortgages are more numerous on account of change of ownership. Referring to our comment quoted above we might also note that indications for loans in this section are in the same line as usual and that the apparent diminished supply is due to the increased amount of money seeking investment through this channel.

The Rural Credits' Bill, which is the outcome of the work of the Congressional committees and the joint commission upon the subject, passed the Senate on May 3rd, and passed the House in final form on May 15th. It is now in conference to consider the amendments. The House measures increase the membership of the government Land Bank Board from five to three, and the salary of a member from \$10,000 to \$7,500 per annum. It also raises the required capital of each of the National Farm Land Banks from \$500,000 to \$750,000. It makes other alterations of detail in the bill, but the general scheme remains the same.

## Goods Industry.

Two great associations of manufacturers of goods in the United States, the "National Cotton Association" and the "American Wool Association," held very successful conventions recently, the one at Boston and the latter at Atlanta, and there is evidence that the industry is in a prosperous and aggressive state. It is probable that not many people know of the remarkable development of the goods industry, particularly since 1899. The figures for the industry since 1859 are as follows:

No. of Establishments	Wages	Value of Products
1,091	\$ 23,940,108	\$115,681,774
956	39,044,132	177,489,739
756	42,040,510	192,090,110

1889	905	66,024,538	267,981,724
1899	1,055	86,689,752	339,200,320
1904	1,154	96,205,796	450,467,704
1909	1,324	132,859,145	628,391,813

The marked growth of the industry in the Southern States is one of the most interesting features of its development, and that is shown by the following table of spindles in operation on September 1st of each year in the Southern and Northern States:

## THOUSANDS OF SPINDLES IN OPERATION ON SEPTEMBER 1st.

Year	In Southern States	In Northern States	Total United States
1859	324	4,912	5,236
1869	328	6,804	7,132
1879	561	10,092	10,653
1889	1,570	12,814	14,384
1899	4,368	15,104	19,472
1904	7,631	16,056	23,687
1909	10,494	17,773	28,267
1914	12,711	19,396	32,107
1915	12,956	19,008	31,964

The wages per operative per annum, as reported by the Census Bureau, are shown below:

Year	No. of Establishments	Capital Employed	No. of Wage Earners	Wages	Increase
1899	1,055	\$467,240,000	302,861	\$86,690,000	\$286.24 .....
1904	1,154	613,111,000	315,874	96,206,000	304.57 6.4%
1909	1,324	822,238,000	378,880	132,859,000	350.66 15.1%

The tendency of increasing wages shown by the preceding table has been continued in the Southern States by gradual increases as the industry expanded and the Northern States by definite wage increases, which, since 1910, have been as follows:

A general increase of 10% in April, 1912, and a further increase of 5% in January, 1916, and a recent advance made in May, 1916, amounting to 10%, so that wages today in the cotton industry are at a higher point than ever before. While increases in the various localities differ slightly from the percentages above mentioned, these may be fairly taken as an average rate of such increases throughout the North.

The last ten years have also shown a marked decrease in the hours of labor, both in northern and southern mills, these adjustments of hours generally taking place without a reduction in the weekly pay of operatives.

Attention may be called to the improvements in cotton mill machinery during the last generation which accompanied increased wages and reduced hours. Such changes have, with few exceptions, been the improvement of existing processes of manufacture rather than the introduction of new processes. Among the most prominent of such changes may be noted the general introduction of the revolving flat top card, originally developed in England but manufactured and installed in this country, beginning in 1886 and becoming the standard machine in use between that time and 1895. This improvement resulted in an increased production in the same manufacturing space, together with a reduction in the amount of waste made.



Another improvement was the development in this country of the modern high-speed spinning spindle. The installation of this began in the mills about 1880, and resulted in largely increased production and the gradual elimination of the more expensive process of mule spinning.

The most recent improvement has been the development in this country and the introduction of the automatic loom, occurring between the years 1895 and 1900. This has materially decreased the cost of production, at the same time increasing the wages of the operatives employed.

Improved fire protection, new methods of lighting and modern appliances for safety and sanitation have also marked the development of cotton manufacture during the last two decades, which improvements have resulted in increased product to the mill and at the same time marked improvements in working conditions to the operatives.

The development has involved a constant increase in the amount of capital employed. In 1830 the capital investment was \$651 per employee; in 1880 it had risen to \$1,207 per employee; in 1899 it was \$1,545, and in 1909 it was \$2,435.

## The British Budget.

The British fiscal year ends March 31st, and the Budget submitted by the Chancellor of the Exchequer to Parliament early in April is of much interest as forecasting the expenditures and revenues of the government up to that date in 1917, and showing his calculations as to the public debt at that time. Converting the Chancellor's figures into dollars at \$5.00 to the pound sterling, he states that the pre-war debt was \$3,255,000,000, the additions to March 31, 1915, aggregated \$2,290,000,000, and the further additions to March 31, 1916, aggregated \$5,155,000,000. The total debt at the latter date therefore stood \$10,700,000,000, but as an offset to this the British government had made advances to allies and colonies amounting to \$1,800,000,000. He estimates that if the war continues to March 31, 1917, the total debt will be \$17,000,000,000, with advances to allies and colonies of \$4,000,000,000. The net debt upon this calculation, will be \$13,000,000,000, which with interest at five per cent. will entail an annual charge of \$650,000,000. The government expenditures for the last full year of peace, excluding the debt charge, were \$865,000,000. The realized revenue for the year ended March 31, 1916, was \$1,650,000,000, and the Chancellor proposes new taxation which is expected to raise the total revenue for the year ending March 31, 1917, to \$2,545,000,000. This calculation includes \$430,000,000 from the excess profits tax. The ordinary pre-war expenditures, plus \$650,000,000 interest and \$100,000,000 for pensions, would make a total of \$1,615,000,000, as the total annual requirements of the British government after the war, provided the war ends by March 31st, 1917. The excess profits tax will naturally disappear with the end of the war, and the Chancellor figures that it will be possible to make some further reductions in the war taxes and still

provide for a one per cent. sinking fund would extinguish the entire debt in 37 years; however, upon the assumption that the value of the bonds would be \$100 by March 31, 1917.

Although the taxation is enormous, it still has but few necessities. The duty upon sugar is 3 1-3 cents per pound, is the most serious in this class. The duty upon tea is 24 cents per pound, upon coffee 10 cents, chicory about 10 cents, cocoa 12 cents. There is a tax of eight cents upon 1,000 matches, and a small tax on dried fruit. This is the entire list of taxes upon necessities for consumption, including the Chinese articles of consumption, but not including beer, spirits, and the latest proposals, but not including beer, spirits, and tobacco, upon which heavy increases have recently been made. There is also a tax upon entertainments ranging from 1 cent to 24 cents for each admission according to the price of admission. During the Boer war the government resorted to a tax upon wheat, but it has not done so in this instance upon flour or meat, or fuel, or the materials of clothing, house-building or house-furnishing. There are no direct taxes upon real estate except for public purposes.

This is not much like the taxation in 1815 following the wars with Napoleon, when Smith, writing for the *Edinburgh Review*, wrote the following famous paragraph describing the situation:

"Taxes upon every article which enters into it or covers the back, or is placed under the foot—taxes upon everything which it is pleasant to see, hear, feel, taste—taxes upon warmth, light, and locomotion—everything on earth, and the waters under the earth—everything that comes from abroad, or is grown at home—taxes on the raw material—taxes on every fresh article which is added to it by the industry of man—taxes on the food which pampers man's appetite, and the drug that cures him—taxes on health—on the ermine which decorates the coat, and the rope which hangs the criminal—on the pepper salt, and the rich man's spice—on the brass nail, and the coffin, and the ribbands of the bride—at bed or board, or on the couch or levant, we must pay. The schoolboy is taxed at the top—the beardless youth manages his tax with a taxed bridle on a taxed road;—and the dyer, the apothecary, the physician, pouring his medicine, which has paid 7 per cent. into a spoon that has paid 15 per cent.,—flings his medicine upon his chintz bed, which has paid 22 per cent.—and the apothecary in the arms of an apothecary who has paid 10 per cent. of a hundred pounds for the privilege of putting up the medicine, and the apothecary who has paid 10 per cent. death. His whole property is then immediately taxed 2 to 10 per cent. Besides the probate, large fees are demanded for burying him in the chancel; his virtues are handed down to posterity on taxed marble; and his name is gathered to his fathers,—to be taxed no more."

The working classes of England are living under an enhancement of prices resulting from other causes that is much more serious than all the taxes they pay. Thus the London Economist shows that the average of all food is now about fifty per cent. above the pre-war level. From this situation there will be a great relief after the war is over which will make such taxes as have so far been imposed seem comparatively light. In fact the increase of living costs in the United States on account of the war has been much greater than that caused by taxes anywhere.

After the war the government debts wh



doubtless will be refunded at a ratio of 1 to 1, the effect a saving sufficient to care for the unemployed.

uses.

budget affords the basis for more definite comparisons than have been made heretofore of the effects of the war and war debts upon industrial and social conditions, and such calculation confirms the growing opinion that although the effects of the current production is very great the effects will not be so serious as commonly supposed.

rather to be poorer in capital at the end of the war than at the beginning, a country must be able to meet the destruction or deterioration of its real properties, by realizing upon investments, by borrowing abroad, or the creation of foreign debts, or by reduction of its stock of goods and supplies. It will not lose ground by having grown and consumed them, or by having made supplies and consumed them, or by having incurred debts which are held by its own people, or by operations offset themselves without affecting the position of the country.

productive equipment of even the warring countries is not upon the whole being greatly impaired. The class of property suffering most is the real estate, and the world is building ships almost as fast as they are being destroyed. No doubt the effects of property are not fully kept up at

this time, but on the other hand there is important enlargement of capacity in some lines, noticeably in the steel industry.

The enormous war expenditures are accepted as signifying a corresponding waste of capital, but these expenditures for the most part represent present labor and production rather than accumulations. The manner in which Great Britain's exports hold up show that there must have been a very great gain in the efficiency of the population. Labor-saving machinery is being used; women have entered offices and shops, everybody is working harder, and industry has been speeded up as never before. A portion of the loss is overcome in this way, a portion is met by reduced consumption brought about all over the world by higher prices, and a still larger portion is accounted for in the check given to constructive work all over the world. The more the situation is studied the clearer it will appear that the losses are being very widely distributed and to a great extent covered during the progress of the war.

The loss of skilled workmen and the consequent disorganization of industry would seem to be the most serious of all the consequences, but against this must be set the gains in efficiency which are even now taking place, under the pressure of the emergency. An experience that stirs and stimulates an entire people is likely to have far-reaching influence upon their ambitions and capabilities.

(Continued on page 11)

# STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS MAY 26, 1916. (In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.F'r'sco	Total
and certifi's. Set- d. Cr. Balances	7,042	142,261	6,709	12,180	5,155	6,483	37,658	5,876	6,142	4,294	3,850	5,386	242,985
ment Fund.....	10,381	2,045	14,881	11,217	13,072	4,714	3,877	4,419	4,711	7,538	9,033	6,103	91,991
ption Fund.....	5	561	50	70	464	478	200	51	30	60	184	10	2,163
Gold reserves...	17,428	144,867	21,640	23,467	18,691	11,675	41,735	10,346	10,883	11,832	13,076	11,499	337,139
er notes, Silver	334	14,441	736	1,061	184	343	2,127	995	673	186	884	8	21,972
nd Sub. coin....													
Reserves.....	17,762	159,308	22,376	24,528	18,875	12,018	43,862	11,341	11,556	12,018	13,960	11,507	359,111
nted, Members													
per paper .....	136	324	812	301	5,344	3,028	1,809	905	658	1,806	4,837	405	20,385
in open market	10,334	17,595	8,736	2,791	806	1,239	3,059	2,139	1,360	1,278		3,371	52,708
ills on hand...	10,470	17,919	9,548	3,092	6,150	4,267	4,868	3,044	2,018	3,084	4,837	3,776	73,073(c)
U. S. Bonds...	3,082	3,489	3,538	6,352	1,605	2,034	9,753	2,959	3,344	9,311	2,866	3,609	51,942
U. S. Treas. notes	250	1,532	462		456			380	350	410			3,840
Varrants.....	4,244	17,100	4,079	5,877	60		5,810	1,749	2,078	1,308		2,850	44,946
Earning Assets	18,046	40,040	17,627	15,121	8,271	6,301	20,422	8,132	7,790	14,113	7,703	10,235	173,801
erve Notes, net	1,054	13,986	138	530		1,402	1,615	1,049	1,803			4,856	26,433
ther F.R. Banks													
.....	4,660		4,062	1,359	1,602	240	7,616	1,179	751	1,477	230	2,131	16,512(b)
sources.....	161	3,581	211	490	175	982	545	471	127	994	1,663	93	9,493
SOURCES.....	41,683	216,915	44,414	42,028	28,923	20,943	74,060	22,172	22,027	28,602	23,556	28,822	585,350
LIABILITIES													
d in .....	4,943	11,283	5,216	5,986	3,350	2,469	6,672	2,794	2,574	3,009	2,675	3,930	54,875
it Deposits.....	1,826	8,753	3,082	1,190	6,358	7,490	2,923	2,778	978	865	6,236	1,952	44,131
osits, net.....	34,861	188,084	36,116	34,872	15,052	10,866	64,465	16,600	18,775	22,257	11,792	22,940	476,680
erve Notes-net					4,108					745	2,853		7,706(a)
erve Bank													
er F. R. Banks		8,795								1,732			1,732
liabilities.....	53				55	118							
LIABILITIES.....	41,683	216,915	44,414	42,028	28,923	20,943	74,060	22,172	22,027	28,602	23,556	28,822	585,350

al Reserve notes in circulation, 159,389.

er deduction of items in transit between Federal Reserve Banks, 16,512, the Gold Reserve against Net deposit and note Liabilities 55.8% and the cash reserve is 70.1%. Cash Reserve against net deposit and note liabilities after setting aside 40% Gold Reserve against net liabilities on Federal Reserve Notes in circulation, 70.6%.

urities of bills discounted and loans: within 10 days, 9,471; to 30 days, 18,064; to 60 days, 24,748; other maturities, 20,790; Total: 773.



Some of the countries, notably Great Britain, are parting with large holdings of American securities, which indicates a definite loss of wealth unless there are offsets. But the British government is lending largely to its allies and colonies, and has permitted these countries to also borrow important sums from the British public. Altogether, according to estimates by competent authorities, British sales of American securities, will be nearly offset by these new loans. If the British people have as much property and as much income when the war is over as they had before, exclusive of income from their own government debt, and have no indebtedness abroad not covered by offsets, they will not have gone back during the war.

### War Indebtedness and Taxation.

There is a vast amount of confused thinking about the burden of the indebtedness, which in all of the warring countries is held mainly at home. If we were to conceive that the value of all payments upon this indebtedness had to be gathered up in the products of the fields and workshops, and burned, we would then have the idea that is commonly entertained about their oppressive influence. But nothing of this kind is to occur. The payment of indebtedness does not extinguish the capital transferred. It only changes ownership, and is as much a factor in the community, for investments, for the employment of labor, and for the support of enterprise and trade, as before. The losses of the war do not occur when the debts are paid; they occurred when the original expenditures were made.

In the case of Great Britain, if the people of that country have as large an income in the aggregate, outside of their holdings of the war loans, as they had before the war, it is evident that what they receive as debt-holders will be new income, and will offset their new taxation, leaving them with about the same net income as before the war. It will signify that the war was carried on out of current income. The same is true of Germany, which is practically self supporting during the war, and has its productive equipment intact.

The problem of placing the taxation is undoubtedly a delicate one, and likely to be the subject of controversy, but the British Budget indicates that it will not be oppressive to the masses of the people. It is likely to be covered by higher wages, and these may be absorbed and lost sight of in efficiency gains. This would easily be so if wage-earners were brought to see the intimate relationship between volume of product, wages and cost of living. If the large class of people who are not accustomed to save are brought to make contributions to the payment of

the indebtedness, the effect will be to avert the accumulation of capital, and so make possible the failure to make normal progress during the war. Some people will see nothing in the concentration of wealth in the hands of the holders, but the practical effect is to enlarge the investment fund, and thus enlarge the production of equipment and machinery, and so multiply the production of the consumable goods which the body wants, and in which the real distribution of wealth is ultimately made.

### Financial Conditions After the War.

The amount of wealth annually available to a country for investment comes from the current income of the people, and the countries which are not lost in productive capacity or income will soon after the war have as much capital for investment as in years past. It is probable that during the warring countries there has been a reduction in stocks, and that at the end of the war there will be a shortage of liquid capital. Capital that has been employed in business has been diverted to war loans and the banks will be encumbered with government securities and loans upon this class of property which they will want to clear away. Nevertheless, looking to the future, there should be a sufficient demand for all the government securities presently on hand. The present unusual rates of interest, and the consequent active demand for ready money. While there is a desire to get back into liquid conditions, it will doubtless be a systematic policy in all countries to supply ample credit for the resumption of normal business operations.

### Discount Rates.

*Discount rates of each Federal Reserve Bank in effect May 29, 1916.*

	MATURITIES				Agricultural and livestock paper over 90 days.	Trade acceptances
	10 days and less.	over 10 days to 30 days, inclusive.	over 30 days to 60 days, inclusive.	over 60 days to 90 days, inclusive.		
Boston.....	3	3½	4	4	5	3
New York....	3	4	4	4	5	3
Philadelphia..	3	4	4	4	4½	3
Cleveland....	3½	4	4	4½	5	3
Richmond....	.....	4	4	4	5	3
Atlanta.....	.....	4	4	4	5	3
San Francisco	.....	.....	.....	.....	.....	.....
Chicago.....	3½	4	4	4½	5	3
St. Louis.....	3	4	4	4	5	3
Minneapolis..	.....	4	4	4½	5	3
Kansas City..	4	4½	4½	4½	5	3
Dallas.....	.....	4	4	4	4½	3
San Francisco	3	3½	4	4½	5½	3

A Rate for commodity paper maturing within 90 days.  
B Rate for bills of exchange in open market operations—5%; paper bought, Dallas 3—5.

C Rate for trade acceptances bought in open market, with bank indorsement.

D A rate of 2 to 4 per cent for bills with or without indorsement was authorized on Dec. 21, 1915.

E Rate for commodity paper maturing within 30 days, over 30 to 60 days, 4 per cent; over 60 to 90 days, 4½ per cent; over 90 days, 5 per cent.

THE NATIONAL CITY BANK OF NEW YORK



## **"City Bank Service."**

---

CORRESPONDENTS and depositors find this service unsurpassed. It is the outgrowth of 100 years' business experience and success.

The excellence of the service is attested by the continuous growth of our resources.

The service is available to you and might become invaluable. We should be glad to hear from bankers, merchants and manufacturers who contemplate opening a New York account or who may wish to establish new or additional banking facilities.

None too large; none too small.

---

**THE NATIONAL CITY BANK OF NEW YORK.**





1916

## U. S. SECURITIES GOVERNMENT FINANCE ECONOMIC AND FINANCIAL CONDITIONS

NEW YORK, JULY

### General Business Conditions.

**T**HE past month has witnessed the inauguration of a presidential campaign, and also a crisis with Mexico which has seemed to bring the country to the brink of war, but business circles have been but slightly influenced by either development. The political issues are not related to industrial or social unrest to the extent they were four years ago, and a war with Mexico, deplorable though it would be, has no very alarming aspects for the United States.

The general business situation has undergone little change. The crop outlook is better than it was a month ago, and promises at least an average yield. There has been some recession of prices, for metals, natural products and manufactures, but they are due to increasing production rather than to diminishing demand, and they have not gone far enough to disturb confidence or materially check the activity of buyers. Production and distribution continue upon an unprecedented scale and, as a rule, with large returns to producers. Manufacturing lines are generally sold ahead for the remainder of this year, and are well assured as to next year's prospects.

Foreign trade is as prosperous as it can well be, considering how little capacity our manufacturers can spare from the home demands. Exports for the month of May aggregated \$472,000,000, the greatest for any month of our history, with a favorable trade balance of \$243,000,000. For the fiscal year ending June 30 there will be a favorable trade balance of approximately \$2,200,000,000, or about double that of the fiscal year 1915.

Under these conditions, the problem of making settlement for the accruing balances is an even larger one than that of last year. The British government announces very satisfactory progress with its policy of mobilizing American securities from British holders. Since the announcement of the purpose to impose an extra tax of 10 per cent. upon income from all securities that the government stood ready to buy, the facilities for receiving such securities have been taxed to the utmost. There is no doubt that ample supplies will be available to take care of purchases in the United States for a long time to come, but of course they must be offered gradually in this country to avoid affecting the market unfavorably. Meanwhile the British

government has resumed shipments of gold to Ottawa and London on a large scale. The amounts received on this movement aggregated this writing \$110,000,000. This gold serves a double purpose of paying for supplies and strengthening American reserves, the latter result coming to favorable action here upon the various operations which the allies have pending.

These gold receipts have had the effect of strengthening the money market, which was feeling the influence of a moderate but continued drain upon the Treasury and the interior banks. The surplus of the New York Clearing House balances is again well above \$100,000,000, and as payments on the income tax are now practically over, government disbursements are increasing. Treasury absorptions will cease. Treasury estimates total collections for the fiscal year ending June 30 at \$1,250,000,000, and the amount of the income tax at \$125,000,000, so that the year will show a surplus of \$1,125,000,000.

The loans of New York Clearing House are now lower than at any time since February last.

### The Labor Situation.

The pressure for labor is undiminished, and the situation is less disturbed than it was two or even a month ago. Most of the May controversies have been settled, the chief exceptions being in the garment trades of New York between the railway trainmen and the employes of the companies. The latter is much the most serious unfavorable factor of the business situation, the consequences of a tie-up of the railways would be so disastrous that the public scarcely credits its possibility, but the controversy is drifting toward a rupture. No approach to agreement has been made in the conferences that were held. The employes claimed to be wanting an eight hour day, the officials representing the companies denied the idea of making the present runs in eight hours as impracticable, and affirmed that the real reason was to increase wages. They proposed that the entire controversy be submitted to the Interstate Commerce Commission for adjudication but offered to arbitrate under the Erdman act.

This offer makes a strong appeal to the public. The members of the Inter-State Commission are the best informed men upon the railway situation in the country. They know whether or not it is practicable to reduce the train runs to eight



t reorganizing the whole service and greatly increasing the costs of operation. They know how wages of the trainmen compare with the wages of railway employes, and with wages in other occupations. They know all about the ability of the companies to pay higher wages and whether or not it can be done without increasing rates. They can consider the entire subject of railway income and expenditures together, and if they conclude that wages should be higher, they would have, what no one else would have, the power to adjust rates to meet the new requirements. It cannot be said that the commission is either without adequate information or without the judicial qualifications to deal with the matter. The more the proposal is considered the more it will appear to be the best possible disposition of the matter.

It is not reasonable on the part of the trainmen to demand and that their claims for more pay shall be met under duress, because they have power to refuse to work under the transportation systems. The day has come when either the managers or employes to attempt to settle such an issue by force, without regard for the vast public interests involved. The companies must take the rates that are determined for them by public authority. Nobody suggests that the trainmen should be absolutely compelled to work at wages fixed by arbitration; they will always have the privilege of quitting the railway service as they would for other occupations; but the right to work for purposes that affect the public interests is different from the right to quit work as an individual. The right to combine and to use the power of combination is always subject to public authority. When it comes to organizing to accomplish something by force, with vast injury to innocent persons, the community has a right to exercise judgment. Nobody should ask the entire community to suffer inconvenience and loss for his advantage without assurance that his claims are just; he is under a moral obligation to furnish proof. No man can demand a vast number of the wage-earners of the United States, who will have to contribute to any increase of railway wages and railway rates, would be asked to exchange their own jobs for places in the railway service under present conditions. The subject should be dealt with as one in which the public interests are involved and entitled to consideration. No single interest can assume the right to insist on its position to force a settlement adequate to itself and unjust to the others.

The officials of the railway orders have gone back to their membership to ask for authority to call a conference.

It is customary to give full powers to the companies, as a means of strengthening their hands in negotiations with the companies. There has been no objection for doing this when the officials of railway companies were taking an arbitrary stand and depending upon their right to be the sole judges of the matter. But in this instance the companies have offered to give the entire case to competent and impartial arbitration. This is a proposal which is not only proper for this case but will establish a desirable precedent for the future. Its acceptance will go far to establish permanent peace between capital and labor

in the transportation industry, and will have a beneficial influence in other fields. The United States stands for arbitration instead of war as the means of settling disputes between nations, and the principle is equally sound in great semi-public industries. With this proposal before them the employes have no occasion to use further threats; as good citizens they should be glad of the opportunity to co-operate in establishing the principle of judicial settlement. No one should ever fight for more than what is fair, or insist that he alone should be the judge of what is fair between himself and others.

### Railway Situation in United States as Viewed by a Foreign Authority.

Mr. W. M. Acworth, a distinguished British writer upon railway economics, has just concluded a visit to the United States, during which he went over several of the important systems, for the purpose of bringing his acquaintance with the railway situation in this country down to date. Mr. Acworth is not a professional railway man, or in the employ of any railway company, but a student and author who has made himself an authority upon the science and practical economics of transportation. He began life as a teacher, and in the youth of William, the present German Emperor, served as his tutor.

Mr. Acworth has been a frequent visitor to the United States, and a careful, disinterested student of our railway problems. Knowing his competency to discuss them, the National City Bank of New York, before his departure a few days ago, solicited a statement of his views upon the railway situation in the United States, which, for many reasons, we believe to be one of the most important subjects now before the people of this country. He courteously complied, and we are giving the statement in his own language below:

### Statement of W. M. Acworth.

"This is my tenth visit to the United States, of whose railway affairs I have been for about thirty years a diligent student. Every time I am brought into contact with American railways the overpowering impression produced on my mind is of the marvelous results which the efficiency of the railroad men produces with the minimum expenditure both of capital and income. It is not very far from accurate to say that the average mile of English railroad has cost as many pounds as the American mile has cost dollars. It is true that for our expenditure we have mostly double-track roads while your typical road is only single-tracked, but per mile of line you probably carry—we have no ton-mile and passenger-mile statistics in England—more tons of freight and nearly as many passengers as we do, and thanks to your concentration of load into wholesale units both of carload and trainload, your single track is normally capable of taking care of the traffic offered."



## THE PROBLEM OF TERMINALS.

"But I do not think it is so with your terminals. Fifteen tons of package freight in one thirty-ton car take much less room on the road than the same weight distributed over five of our little ten-ton cars, or "trucks" as we call them, but when fifteen tons come to be handled at the terminals and carted away by teams, they need just as much space in America as in England. In other words, you will have to spend vast sums of money to enlarge and improve your terminal accommodations, and the land required for the purpose you will have to buy and adapt at modern prices. One does not need to go outside of New York with the new Pennsylvania and Grand Central stations to see what new terminals cost in a great city."

## DOUBLE TRACKS AND OTHER IMPROVEMENTS.

"But there is more than this. Even assuming that you can carry your present traffic along the road, statistics show that your traffic doubles every twelve years and, therefore, before long you will have to do a great deal of double tracking, and double-tracking very often means practically rebuilding the railroad. Again, as the country gets more settled, traffic becomes more diversified; express and fast freight become more important. There will be more passenger trains, both through and local not only due to closer settlement, but also to more exacting demands in matter of service. Now, express and fast freight trains not only carry less, but run at higher speeds than slow freight, and passenger expresses run at higher speeds still, so you will have both more trains on the line for the same amount of traffic and greater varieties in speed, and all this means, as every railway man knows, a great reduction in the carrying capacity of the line as measured in tonnage."

"Public demands for abolition of grade crossings, for steel coaches with their enormous weight per passenger carried—three times that usual in England—for block signalling, for monumental stations, etc., etc.—all these things will imply immensity of expenditure. Mr. Hill estimated ten years ago that the railroads ought to spend a billion dollars a year to keep abreast of the public requirements. They have not spent it, not because the expenditure was unnecessary, but because the money was not forthcoming, and somehow you will have to catch up the arrears and take care of the future on an even more generous scale, or the development of the country will be brought to a standstill."

## NEW CAPITAL REQUIREMENTS.

"Can the railroads get all the money they need? The question is a very serious one, and I will not attempt to answer it. That in the past they have not been able to get out all the long-term bonds they would have liked to sell is sufficiently proven by the volume of short-term notes issued and frequently renewed at

maturity. Why should an investor buy road bonds? Primarily, he wants interest. The fact that over forty thousand miles of railroad are today in the hands of a few is sufficient proof that he does not always get it, and if railroads cannot sell bonds, how can they issue common stock. Even the Pennsylvania Railroad, after seventy years of honest and intelligent work in developing the resources of what is perhaps the richest territory in the world, earned in 1914 only more net income than sufficed to pay a dividend of six per cent. dividend."

"Why should the public invest in railroads if the returns are less than on other investments and the security of the capital seems to be rather than increase? And if the American public refuses to invest, there is certainly no other source for new capital nowadays. The European market will have enough to take care of its own requirements for years to come."

"For all that, the result of my own investigations and prospects for the future look to me far brighter than I could have imagined. The worst was last here, less than three years ago. Judging from the replies to a circular sent out to our clients by a New York banking house, of the 1310 correspondents report that hostilities on the railroads is abating, while only 185 report that it still persists; and the same correspondence by a majority of almost two to one, repudiate a five per cent. advance in rates which would be seriously opposed. And a general increase of one per cent. increase, all of it net income being served, would put a very different aspect on the whole situation."

## HOPEFUL SIGNS.

"But the railroads need not merely escape the effects of hostilities, but active support and help from the public authorities. They cannot do this in the past the legislatures have neglected them. On the contrary, the excess in railway legislation has been almost conspicuous as the deficiency in its quality. There are many signs that things are changing. Recent decisions of the Interstate Commerce Commission have shown that this most important body appreciates the situation, and is ready to help the railroads to reach a better financial position. The fact that one of the great political parties has put forward in its platform the unification of control under a single authority of the Federal Government is a most hopeful sign. The mere avoidance of waste owing to the necessity of co-ordinating with innumerable varying requirements different methods of operation will be a great thing."

## COST OF MULTIPLIED AUTHORITIES.

"I question whether the public has realized the conception of the amount of time and money wasted owing to the multiplication of different rate schedules, accounts, reports, etc. I have seen an estimate that the railroads, taking



ther, have to furnish about two million reports  
annum to the various state and Federal au-  
thorities. Unification of control will put an end  
to such patent absurdities as the fact that, while  
the Interstate Commerce Commission recog-  
nizes that 2½¢ per mile is a reasonable fare,  
from Rochester to Cleveland, if a passen-  
ger on the same train gets out at Buffalo, the  
New York commission decides that he cannot  
reasonably be asked to pay more than 2¢ per  
mile!"

"Then your Federal Valuation Law of 1913  
must soon begin to bear fruit. From what I  
have seen and heard of what has already been  
done, I am persuaded that any fair valuation,  
such as is now being carried out by engineers  
appointed by the government, will prove con-  
servatively what I have always myself firmly be-  
lieved, that the railroads of the United States  
are worth today far more than the sum at  
which they are capitalized."

"I am quite sure that the American public  
wants to be fair, but they can hardly be ex-  
pected to keep abreast of the railway situation,  
which changes from year to year. They have  
been thinking too much hitherto of "old  
fashioned far-off things and battles long ago."  
They seem now, as proved by the proposal that  
the Congressional committee shall inquire into  
the whole situation, to be inclined to have done  
the past and to turn their minds to the fu-  
ture. An exhaustive inquiry into the situa-  
tion as it exists today can only be in the inter-  
est of the railroads and railroad investors. It  
will show, I am firmly convinced, that the rail-  
roads deserve well of the country, that per  
dollar of capital invested they do more work  
in any railroads in the world, that the rates  
they charge, having regard to the service ren-  
dered, are far lower than anywhere else in the  
world, but that the rates, as a whole, are not  
adequate to afford a steady and reasonable re-  
turn year in and year out on the present  
investment, and to induce capitalists to make  
the great further investment which the public  
interest requires."

Once the knowledge of these basic facts, as I  
believe them to be, has been got into the public  
mind, I have no doubt that the railroads will be  
given such fair treatment as will produce the in-  
vestment of all the capital required. It is to be  
remembered, however, that the public education will be  
slowly completed. For the expenditure of new  
capital on a generous scale must not be much  
longer postponed if the trade of the country is  
to continue to expand in the years ahead."

#### THE WAGE QUESTION.

The demand for higher wages which your rail-  
road employees are making and the possibility that  
this controversy may result in a strike that will tie  
up the transportation lines, recalls the similar  
struggle which we had in England five years ago.  
Possibly our experience will be instructive to the  
American people in view of the present situation.

It is to be hoped that the dispute here will not go  
to the length of a strike. That should be avoided  
if possible."

"In our case, in 1911, we actually experienced a  
serious suspension of traffic. The strike itself  
lasted a little less than a week, and while it was  
on, traffic was not entirely suspended, but during  
that brief period it inflicted a tremendous loss,  
not only upon the workers themselves and upon  
their employers, but chiefly upon the industry of  
the country as a whole."

"The wages of employees at that time were very  
much lower than they have been in this country,  
and there was a general feeling that they were too  
low. The average wages of British engine drivers  
were certainly not more than \$10.50 a week.  
Conductors received not above \$9.00, while fire-  
men and brakemen were paid \$7.00 a week or  
less. The average pay of all railway workers was  
not more than \$6.00 a week."

"In order to aid in a settlement of the strike, the  
Government entered upon a promise that an in-  
crease of freight rates would be allowed to the  
companies, and the agreement was embodied in  
the following words:"

"The Government will propose to Parliament next  
session legislation providing that an increase in the cost  
of labour due to the improvement of condition for the  
staff would be a valid justification for a reasonable  
general increase of charges within the legal maxima if  
challenged under the Act of 1894."

"The Government carried out this agreement  
and Parliament passed an act in pursuance of the  
promise, with the result that freight rates were  
advanced about 4 per cent. upon the bulk of the  
traffic."

#### James J. Hill.

The death of Mr. Hill has been the occasion of  
much appreciative comment upon the great and  
useful part which he performed in the development  
of our Northwest. The press of England has given  
almost as much attention to the event as the press  
of this country, for he was an international figure.  
He brought large sums of capital from Great Brit-  
ain and used them in providing transportation facili-  
ties for that great stretch of then wild territory  
between Lake Superior and the Pacific Coast, with  
the result that population flowed in, farms were  
opened, cities were built, and a vast amount of new  
wealth was created. Out of this new wealth, Mr.  
Hill and his associates were well rewarded, but their  
share was an insignificant part of the benefits dis-  
tributed. In addition to the benefits conferred upon  
the people who have found homes, employment and  
fortunes in that territory, are the benefits conferred  
upon the outside world, by the new supplies of food  
and materials that now come from that territory.  
And finally, the fortunes which Mr. Hill and his  
associates created for themselves, where there was  
nothing before they came, exist for the most part in  
the form of property that is valuable to them only  
as it is used for public purposes, and in the case of  
Mr. Hill, the income was for the most part rein-  
vested for the further development of the territory.



The ambition, the energy, the purposes of his life, were centered in the development and enrichment of that territory.

He was a man of large ideas, with the imagination to plan on a great scale for the future, but the most remarkable characteristic was his ability to see every necessary step in the development of his plan. He not only saw the possibilities, but how to realize them. He was a leader of men and of communities. He was an organizer; he made the labors of millions of men more effective than they would have been without the idea and the facilities that he supplied.

He was primarily a railway builder and operator and among the leaders in the development of railway efficiency, but his active mind grappled with all the problems of the time. He clearly comprehended that mutuality of interests which is the most important fact in all our social relations. He saw that the interests of his railway company were closely identified with the interests of the communities which it served, and that their prosperity was vital to it. The chief interest in that territory was agriculture, and there is nothing in Mr. Hill's career more creditable to his sagacity or, we take it, more characteristic of the man, than the practical interest which he manifested in the betterment of farming methods. His achievements as a railway man, as a financier, and in a general way as a leader and promoter of industrial development, have been described and eulogized at length, but the details of his intelligent efforts for the improvement of agriculture are not so well known. The truth is that for more than thirty years this was one of the chief objects of his attention.

#### Promoting the Live Stock Industry.

In 1883 an unusually dry spring and summer gave the farmers of the Northwest about one-half to two-thirds of a crop. "I started in then," said Mr. Hill in a recent speech, "to scatter cattle. I brought out within three years, from the best herds I could find in Great Britain about 800 thoroughbred bulls and gave them to the farmers." The only condition attaching to the gift was that the bulls should be properly treated for a certain period. The animals were distributed with care, one or two in each county, and service was to be given for a nominal charge. In this way Mr. Hill hoped to diversify the resources of the Northwest, to protect the farmer from possible crop failures and to sow a future traffic which the Great Northern would some day surely reap.

At another time (in 1907), Mr. Hill stated that he had distributed somewhere between 6,000 and 7,000 thoroughbred cattle and hogs throughout the Northwest. Probably the total for the entire period would be over 10,000. During all this time he carried out an active campaign—often taking his message direct to the farmers' gatherings at county fairs. He gathered statistics, employed experts, experimented on his own farm, and kept the subject alive by timely lessons. For instance, when wheat was selling around fifty-five cents per bushel, he experimented feeding it to his steers—and got eigh-

ty-two cents a bushel for the wheat "on the

Then again, he pointed out that if forty bushels of corn per acre are raised and shipped to market, the weight is over 1,700 pounds, while if a farmer has a good steer to build on, it weighs him from 350 to 400 pounds additional weight on the steer. He will then send that corn to the market under entirely different conditions. And if he keeps on the farm as fertilizer, one-third the value of all that he feeds the steer.

One of the experts selected by Mr. Hill to assist on his work was Prof. Thomas Shaw, one of the leading authorities on animal husbandry in the world. Prof. Shaw has spent his entire time in the last ten years going over sections in the Northwest which have not shown up to the best advantage. His method is to make careful analyses of the soil and study of the general conditions in a particular section. After convincing himself of the proper methods to be pursued he has advised the farmers, shown the results and discussed their problems with them. In 1914 Prof. Shaw purchased in England over 100 heads of dual-purpose short horn bulls, which he in turn given to a selected list of farmers in the Northwest. Hill. These bulls were selected because they had proven the best for the average farmers in the Northwest as they produce herds which give large returns in milk as well as beef.

#### Demonstration Tracts.

Mr. Hill urged with equal enthusiasm a system of nestness, soil analysis, crop rotation, seed selection and proper cultivation of the soil. For years he urged the operation by State or National Government of demonstration farms. In the spring of 1912, a tract of five acres was selected (along the line of the Great Northern) in each of 152 farms in Minnesota and North Dakota. Mr. F. R. Crane, after nine years at the head of the Agricultural Engineering Department of the University of Illinois, and three years as Superintendent of the Special Agricultural School at Marquette, Wisconsin, was put in charge. The owner of the land in each case agreed to plow, plant and cultivate the five acres exactly as directed. The seed was supplied to him. He received the product of these acres as his own and in addition was paid for his labor. Here is the record for the first season's administration:

#### GREAT NORTHERN P

	Minnesota	North Dakota
Wheat	29.86	31.47
Barley	44.65	49.71
Oats	67.09	78.64

Quality gained as well as quantity. The wheat raised by the improved method is larger, heavier and heavier.

Encouraged by these striking results the demonstration was carried on in subsequent years. In the fall of 1912 arrangements were made with 361 new demonstration farms. Soil samples were taken from each farm and shipped to St. Paul to be analyzed in the



in soil laboratory at Mr. Hill's farm. Care-analysis showed in a majority of cases a complete lack of nitrogen and phosphorus and these elements were applied to the plots where needed under the supervision of the expert, Mr. Crane. Good manure was recommended as the best and most economical way to build up nitrogen in soil.

To supply the phosphorus it was found that 400 pounds of acid phosphates per acre applied to soil low in this element proved very effective.

It is a simple computation to prove to the farmer in view of the increased yields of grain, that the fact that application of fertilizer was necessary only once in every two to three years, that it was decidedly profitable to apply such essential elements as were deficient in his soil. For in-where manure and phosphorus were used on the experimental plots a gain of eight bushels was made over the use of manure alone. At an average price of 50c. per bushel a gain of \$4.00 an acre resulted. The cost of 400 pounds of acid phosphates would not exceed \$1.00 to \$1.35. A net gain from \$2.65 to \$3.00 per acre is evident—enough to pay the rent!

The happy combination of scientific analysis and practical demonstrations of the striking results under the guidance of experts, provided each community with inspiration for better farming methods. The results were believable by the farmer because he could watch the progress made, and the lessons were therefore readily grasped.

#### Banking Through Banks.

In 1912 Mr. Hill acquired control of the First National Bank of St. Paul and the Northwestern Trust Company, and through these institutions proposed to organize another campaign, inviting the cooperation of country bankers. Prof. H. R. Henshaw, professor of animal husbandry in the University of Minnesota, was employed as live stock

inspector. Smith's work is primarily in conjunction with the country banker in enabling him to help the farmer.

He makes from ten to fifteen speeches each year at farmers' meetings arranged by local banks throughout the Northwest. Oftentimes as many as 150 to 200 farmers are gathered at such meetings.

Smith's advice is at the service of local farmers and others who wish to procure blooded stock for their localities. In many instances money loaned by local bankers to aid farmers in such enterprises.

The most elaborate campaign thus far carried on by a bank and trust company is an annual corn show the first of which was held last year. Under the plan "Corn and cattle contribute capital for bank balances," the interest of the banker is focused in encouraging an increased production of corn in this section, which has heretofore been chiefly devoted to one crop, wheat. The contest was divided into 34 sections and first, second and third prizes were awarded for the best yield in each section. In each division a

boy's contest was arranged and separate prizes given.

These broadly conceived plans for the betterment of farming conditions which Mr. Hill lived to see bear fruit largely through his own efforts, have laid a strong foundation for the future of the Great Northern Railway and the whole Northwest. There is no greater contrast in any industry than that which the present-day demonstration farm in every neighborhood, laboratories of agricultural chemistry and agronomics, and scientific farming methods, bear to the agricultural conditions as Mr. Hill first found them. From this change already radiates an influence that promises to recreate an industry and wonderfully enrich a nation.

#### Bankers of Many States Promoting Agriculture.

Although Mr. Hill was a pioneer in this field the activities of Minnesota bankers along this line date back of his entry into banking. The Northwestern and the First and Security National banks of Minneapolis have been energetic in the same cause, and the Minnesota Bankers' Association began some years ago to appoint committees and labor systematically for the promotion of agriculture. If we mistake not it was the pioneer among bankers associations in this work, but since then the idea has spread until throughout the West the improvement of agriculture has become the chief theme at bankers' conventions. In Iowa a year ago the state association held its annual meeting at the State College of Agriculture. The Illinois, Michigan, Texas and Alabama associations have been especially active in practical work. The Alabama Association has been conducting for more than a year a thorough campaign throughout the state for the diversification of agriculture and for the extermination of the cattle tick which has prevented the profitable development of the dairy and beef industry. The American Bankers' Association maintains an active commission upon agriculture, which publishes an excellent monthly journal, the *Banker-Farmer*, of wide circulation.

This broad movement to improve the conditions and methods of agriculture is certain to bring good results. The most notable feature in these campaigns is the interest taken in them by the boys and girls upon the farms. They are quick to seize upon the inducements offered for unusual yields, and to adopt new methods, and through them there is promise that the standard of efficiency upon the farms will be steadily raised.

Perhaps the most important gain, however, is in the growing recognition of a genuine community of interests, for as this is more clearly realized, the efforts of those who have the means and ability to improve all social conditions will be stimulated until every ill-kept acre and untrained individual will be seen to be a loss and a reproach to the community.

#### Wages and Efficiency After the War.

There have been and are two views about labor conditions in Great Britain and the other warring countries when peace is restored. The one that has been most commonly held is that the industries will



be seriously disorganized by the loss of skilled and experienced men, and that on this account and as a result of the taxation which must be imposed, labor costs will be inevitably higher. It cannot be doubted that these influences will be in effect, but it has become apparent that the war has other and counteracting results, and the real question is as to which set of influences will preponderate. In the first place women have been installed upon many kinds of work which they had not attempted before, and they have given such a good account of themselves that they are likely to remain in some of these new employments. It is generally accepted in all advanced countries that with the progress of society, women will be relieved of hard physical labor, and that save for a few years before marriage, and in the exceptional cases, they will not be a factor in the competitive labor market, but the war will seriously increase the number of women who must find their own livelihood, and it is evident that any considerable increase in cost of living will bring large numbers of women into industry.

But another influence, perhaps more permanent than the presence of women in industry, is that created by modernization of industry under the war pressure for increased output. In all of the old countries, where labor has been cheaper than in the United States, the necessity for labor-saving methods has been less urgent than here, and traditional methods have prevailed to a great extent. The labor organizations, through mistaken policy, have stood for the old methods, and nothing short of the exigency created by the war could have suddenly lifted the industries out of the ruts in which they were held. Under no other circumstances could a nation-wide demonstration of non-efficient methods have been obtained. The result has been a surprising revelation of the hitherto unused productive capacity of the country. In view of the fact that approximately 5,000,000 men of the most capable industrial class have been withdrawn from the working forces for service in the army and navy, that a vast section of the industries is occupied in producing war supplies, and that an effective embargo exists upon some of the most important British exports, it is astonishing that that country's exports hold up so near to the figures of before the war. In the month of May, 1916, the exports of the United Kingdom were forty per cent. greater than in the month of May, 1915, and actually \$25,000,000 greater than in May, 1914, before the war. These figures are inflated by high prices, but the showing is nevertheless remarkable, and if this can be done in the midst of war what reason is there for expecting a falling off of British exports when peace is restored?

We have at hand the abstract of a statement made by the manager of an important industrial works in England, to the stockholders of the company at the annual meeting recently, in which he says:

"Wages and the cost of raw materials have risen to, in some cases, double what they were in pre-War times, but in many directions the removal of the restrictions on output, and the work of a simple and easily learned character done by unskilled labour, has resulted in consider-

able reductions in final cost, proving definitely that workers would only throw off the yoke of the restrictions their unions who preach 'restriction of output as a means of regulating work and preventing non-employment they would be able to earn greatly increased wages, insure employment for everyone by making it possible to produce a large portion of the goods that are now, or were, produced by the War, purchased abroad to be made in this country. This is a much more important matter than fiscal policy, and more hopeful if it could be brought about than a combined effort to restrict German and competition, because it would be economically sound of a lasting character. It seems to me that there would be a fitting opportunity for the employers' unions and the workmen's unions to get together and the encouragement of the better instincts among workers generally, and the conditions under which it would be practicable, after we have beaten the enemy in a military and naval sense, to pull together and beat them in manufacturing and commerce. A return to the old methods of minded ways, small and uniform wages, restriction of misdirected efforts, seems impossible. Both sides have to make changes, but the possibilities will be enormous for each party that any throwing overboard of ancient and out-of-date rules, would be more than repaid. The cost of the War is enormous, and we are not yet finished with it, but if we can commence operations in a well-organized way immediately the struggle will be over and the losses will be wiped out in a very short time."

Finally, besides the changes in methods, a more general introduction of labor-saving machinery, which may be expected to occur, is probable. That important changes will have taken place among workers themselves, particularly in the men who have served in the armies. Some people think that many of them will never go back to their old work, but will emigrate to the colonies, where opportunities are greater, which, if true, will be still another factor in the situation. Perhaps nothing better could happen to the world than a "back to the soil" movement which would cheapen the necessities, but it would intensify the labor problem in England. On the continent there is no governmental interference with emigration. In any event it is a common opinion among observers that the men who have been in the campaign have received a great stimulus from the experience, and that they will not be content to work under the old limitations or fall back into their old contracted views.

### Scientific Education Wanted.

The more closely the industrial situation is examined, at home and abroad, the more convincing is the evidence that progress in industrial methods is bound to be more rapid in the future than in the past, and that a country's position in trade will depend upon the degree of harmony in which capital and labor work together, the receptivity of the population to new ideas, and the fertility, resourcefulness and enterprise displayed by both employers and wage-earners.

The most remarkable industrial development upon record has been that of Germany since 1914, in many respects surpassing even that of the United States, although this country is greatly superior to Germany in variety and extent of natural resources. The progress of Germany has been won by developing the mental resources of her people rather than by developing the physical resources of the



German people have been made efficient by a rough system of education and discipline. The wonderful growth of their industries, the vast extension of their foreign trade, the proud position had achieved before the war as a carrier upon seas, were the rewards of high intelligence and terrific industry. These achievements did not come by working longer hours or more painfully than they had labored before. They were the result of organization, leadership and a system of practical education for the masses of the people which made them individually more capable and productive than their fathers had been.

careful students of affairs in England understand very well the secret of Germany's progress, and they do not qualify their language in telling their own people what must be the conditions of international competition. A recent number of the *London Times* contains a powerful editorial, prompted by a call for an Economic Council of the Allies to consider policies after the war, in the course of which it says:

The real truth, as we of this Journal see it, is that the domination of international trade by Germany can be explained only by other countries becoming at least as well advanced in science as Germany is. Take the case of the United Kingdom. She became the leading seafaring, manufacturing, banking, and commercial country in the nearly a century before Germany. And yet in about the other half a century Germany has obtained control of some of the most important branches of British trade. Not only that, but she has obtained control of important parts of all the trade of the British Empire and of the Continental countries as well. How did she do so? No doubt, the Government was behind all the traditional bankers, manufacturers, or merchants. It was their commercial traveller and their backer. But, more than that, Germany has attained to her pre-eminence in trade because she was scientifically the best educated country in the world. It would be wearisome to catalogue all the uses of science in which the Germans are superior. It is more to the point to turn to ourselves. We had an immense advantage in practically a century's start of Germany and we are now crying out that in another half-century Germany has beaten us. The question is, Why? And the answer to that is simply dislike of science, disbelief in real education and, lastly, mental inertia. We have kept up at the older universities a system of education which was established in the Middle Ages. And we flattered ourselves that the kind of teaching which suited the Schoolmen is also adapted to make man supreme in the economic world of today. As long as we indulge in that folly, so long Germany will beat us, let us resort to what alliances and what treaty arrangements we may please."

It is apparent that British industry is having a rough shake up, and the outcome of every such disturbance of old and stereotyped conditions is reorganization upon improved lines. Well informed prophecy that although wages there will be perceptibly higher, production costs after the war will be lower than before.

#### Industry in America.

It is a fact that this reorganization of industry will offset the losses of men and rise of prices, what will be the competitive position of industry in the United States? Will it likewise have a gain in efficiency sufficient to offset the rise in wages that has taken place here, and to reduce the cost of production? It sounds paradoxical to

say that Europe will be a more capable competitor after suffering the losses of this war than it was before, but it would not be the first time that adversity and hardship has proven to be a better training school than prosperity. That is, in fact, the common experience.

People are never in greater danger from competition than when they think their position is secure, and it behooves the leaders of industry in this country, among both employers and wage-earners, to understand the conditions that are likely to confront them. They should set themselves harmoniously to the task of reducing costs, not merely down to what they were before the war, but lower. The profits of this period of prosperity will not stay with us long unless they are used for this purpose, and the high wages of this period will not be permanent if they result in permanently higher costs. These admonitions should be blazoned in every office and workshop. We know that industry will not stand still, but it remains to be seen whether its progress will be more rapid here or in other countries. The essential thing is to imbue everybody with the spirit of progress, to inspire all with the consciousness that change—progress—in industry is normal and inevitable, and that all classes are interested in promoting it.

We have been accustomed to think of the steel industry as the most efficient of industries, but the by-product coke-ovens are only now coming into general use. The wastes in the lumber industry and in coal production are notorious. Great economies have been accomplished in transportation, but others are possible. In every line of production gains are to be made by progressive management.

We must uproot in this country the idea that when higher labor efficiency is urged it means that the wage-earner must be driven to more wearing exertions. Intelligent employers know that the most efficient work is not done by men or women who are working beyond their strength; the work must be done with an elastic vigor which is daily replenished, and which is stimulated by good will and a genuine interest in what is being accomplished. There is ample evidence that here, as well as in England, there are latent resources in the workers, of which they are often unaware themselves, and which they would be the better for using. The truth is that nobody improves or develops in capacity unless he tries out his capacity and makes use of it at least a part of the time.

Mr. James Couzens, who for thirteen years was manager of the Ford Automobile Works, in a recent magazine article, advocates high wages as a means of securing more effective labor and of lowering labor costs. He says that the wage-earner "needs an incentive to freshen his interest and arouse his ambition," and asserts that high wages have been profitable to the Ford Company. It has been authoritatively stated elsewhere that every advance in wages in the Ford works has brought a gratifying increase in the output.

High wages in the Ford shops have been accompanied by an extensive system of paternal, or friendly, oversight upon the employees, their per-



sonal habits, thrift, and even their domestic relations and manner of living. The excess which the company pays above average wages is given as "profit-sharing," and efficiency and good citizenship are required in return. Drinking, gambling, unthrift, unsanitary living, quarreling, domestic discord, are considered harmful to efficiency, and employees who offend in these respects lose a part or all of their participation in profits, and if they are incorrigible must ultimately give up their places to others who are willing to co-operate with the policy. The share of profits withheld while the offender is under discipline are not saved to the company's treasury but turned into a charity fund. The scheme is parental and educational, and it is said that few fail to respond to it. If men do not develop efficiency in one class of work they are shifted repeatedly, but it is not considered a kindness to a man to allow him to remain inefficient. One of the objects held up by the management is to develop the capabilities of men for their own good as well as to increase their value as employees, and the employees seem to accept the regulations as of this intent.

It does not follow that the Ford plan is applicable to all industries and all cases, but it is certainly a highly interesting experiment, and it has gone far enough, and is sufficiently supported by other experience, to show that there are great latent resources in the human factor of industry, and that greater efficiency does not necessarily entail greater fatigue or more oppressive working conditions. The best method of securing that greater efficiency is a matter over which there may be differences of opinion, but the importance and desirability of securing it cannot be sensibly disputed. If it could be magically obtained simultaneously in every industry the effect would appear in a greater abundance of all necessities and comforts for everybody, and this is the end for which higher wages are sought.

One feature of Mr. Couzens' article is his comment upon the complaint that by raising wages above the customary rates the Ford company is setting a pace which other manufacturers cannot follow, and disturbing the labor market. He says:

"As for the employer, it is up to him to meet competition in wages as in everything else, and if he cannot survive on that basis the sooner he goes out of business the better for himself, for his employees, for his community, and for his country.

"There is no law of God or man by which a merchant or manufacturer is guaranteed protection against his own incapacity. There is nothing sacrosanct about manufacturing or merchandising. There is not even any way of knowing beforehand whether a man is endowed with the talents necessary to engage in any business. If he has sufficient capital to start with, or an influential relative to put him in a commanding position, he is licensed to practise. Why his competitors should be asked to worry about his success is something I am quite unable to understand. He fails, as a matter of fact, more often than he succeeds, and if the world waited for the derelicts to raise the standard of wages it would be a long wait."

This is plain talk, but it seems to be unanswerable, subject to the condition that competition shall conform to sound and wholesome business principles. According to the argument there is nothing to condemn in the policy of paying higher wages than competitors or selling at lower prices than

competitors, even though this may eliminate competitors, and, subject to the above qualifications, this is the pathway of industrial progress. The natural effect of the policy would be to bring the most capable managers and the most capable workers together and to give them leadership, but the policy has not been in favor in this country.

If it is sound policy for managers in the payment of wages, why is it not sound policy for the workers in the earning of wages, and why should there be insistence upon the same wage regardless of earning power?

### The Tavenner Bill.

While the leaders of industry and students of economic conditions are striving to improve the country with the necessity for the development of efficiency, Congress has confirmed its previous action condemning modern methods for the promotion of efficiency in Government works.

The Sixty-third Congress voted an amendment upon the army and navy appropriation bills, forbidding any officer, superintendent or foreman in charge of the work of any employee of the United States Government to make with a stop-watch or other time-measuring device, a time study of the job, or of the movements of any employee, and prohibiting the payment of any premium or bonus for expediting work. This provision was aimed at the so-called Taylor efficiency system which has been installed in several of the arsenals.

The Tavenner bill extends this prohibition to Government work, but since it was in an unfavorable place on the calendar its advocates have resorted to amendments to the appropriation bill. On June 22nd its provisions were incorporated in the fortifications bill by a vote in the House 197 to 115.

In the debate which preceded the vote Congressman Moore, of Philadelphia, presented a resolution against the legislation from employees of the Ford Arsenal, Philadelphia, and the House passed down an amendment providing that efficient stop-watch systems might be retained or retained in any shop by a referendum to the employees.

The stop-watch is used in systematizing and standardizing work, to determine definitely how much time is required for the several portions of a task when the work is performed in the approved manner. It is a feature of the instruction by which unnecessary motions are eliminated, and a workman is trained to be an efficient one. The present Secretary of War, in a letter to the Speaker of the House, stated that the wages paid, "as a rule, irrespective of their response to the time system, is the current rate of the community for similar work and, in addition to that, premium is offered, not large, but large enough to stimulate continuous and faithful activity." It was evidence that the output of the Watertown Arsenal had been increased from 50 to 100 per cent. by the system. Secretary Baker went on to say the same letter:

"The legislation which is being urged upon Congress advocated by organized labor which is opposed to the system intended to be prohibited, for the essential



is embodied in the charge that it is a speeding-up. I can not understand this charge as having any meaning than that the work required of the employees by the system is unduly severe. Of the truth of the charge in the practice of the system at the Watertown Arsenal, there is no evidence whatever, but there is a great deal of evidence the other way. There is no complaint of overwork at the arsenal, and no workman has been discharged because of failure to meet the requirements of the system."

"To prohibit the system of which the record shows undoubted advantages both to the Government and to the employees, because of a charge unsupported by evidence, and on any attempted evidence, for there has been no effort to prove overwork at the Watertown Arsenal, would be to me to be most unwise."

"Workmen in the arsenals have an eight-hour day with 15 full days of vacation in the year, seven full holidays and 13 half-holidays in the summer season, in all ten per cent. of the working time with full pay."

"The report of the minority of the House Committee condemning the Tavenner proposal refers to the effect which such action by the government would have upon industrial progress in the country, and says:

"It is self-evident that if a system is so nefarious as to require the Government in imposing the penalty of imprisonment upon a Brigadier-General or Cabinet officer, the system would be so obnoxious that any private manufacturing establishment would be obliged to discard it. It is made a crime for a public officer to make a study for the purpose of fixing a standard of service. To give a premium, it is equally reprehensible for a private employer to do the same thing."

"The case illustrates the fundamental weakness of the government in industrial undertakings."

The management of the shops is taken out of the hands of the officials who have them in charge, and who feel some personal responsibility in their successful operation, by a vote of Congress, without any evidence to warrant the action. Of course efficiency is not to be expected under such conditions.

The especial applicability of the Taylor system to Government operations has been pointed out by Mr. Ray Stannard Baker, in a recent appreciation of the work of F. W. Taylor, author of the system. Mr. Baker says:

"Mr. Taylor's system, or something closely resembling it, must increasingly become the basic method of controlling industry. The moment competition disappears in any branch of human activity the need of new scientific basis for measuring values becomes imminent. The especial difficulty in all Government work to-day is the absence of standards. No one knows how much work a man should do, or how he should do it most efficiently, or what should be the fair relationship between a given task and the compensation paid for it. It is not without significance that few managers have seized upon the Taylor system with such alacrity and satisfaction as the able engineers in control of Government arsenals and navy yards."

"That the labor organizations should be opposed to efficiency systems is something to be regretted, but they have been too persistently wrong in their attitude toward efforts to increase the productivity of industry for their opposition in any instance to be accepted as conclusive. It is an habitual attitude, for which explanation and even justification may be found in the history of industry, but as an habitual attitude it is wrong. The increase of productivity is more important to the poor man than to the rich man; the latter's needs are already amply supplied."

## STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS JUNE 23, 1916. (In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
in and certifi's. Set-fund. Cr. Balances	6,055	156,378	9,087	12,785	5,049	6,220	42,939	4,974	6,455	4,225	5,735	5,741	265,643
tlement Fund.....	14,430	4,055	13,287	11,302	14,663	5,392	4,562	6,394	5,628	8,181	9,055	9,152	106,101
edemption Fund.....	5	250	50	32	410	483	200	88	50	79	257	10	1,894
total gold reserves...	20,480	160,683	22,424	24,119	20,122	12,095	47,701	11,456	12,113	12,485	15,047	14,903	373,638
ender notes, Silver's and Sub. coin.....	17	7,762	181	1,126	204	542	1,777	1,050	695	145	518	9	14,026
total Reserves.....	20,507	168,445	22,605	25,245	20,326	12,637	49,478	12,506	12,808	12,630	15,565	14,912	387,664
emption fund—F. R. notes .....										400	50		450
ountained, Members' rcial paper .....	279	433	615	270	5,257	2,774	1,921	571	876	1,944	5,384	426	20,750
ight in open market	12,174	23,341	10,294	4,501	890	1,559	3,892	3,657	1,769	1,117		5,819	68,963
total bills on hand..	12,453	23,774	10,909	4,771	6,057	4,333	5,813	4,228	2,675	3,061	5,384	6,245	89,703(c)
ment U. S. Bonds... ar U. S. Treas. notes	3,082	3,463	3,538	6,706	1,605	1,684	9,753	2,959	3,512	9,853	3,111	3,609	52,875
pal Warrants.....	250	1,532	462	456	456	350		380	350	410			4,190
	2,620	4,726	1,881	4,587	60		3,401	941	1,239	430		1,747	21,632
total Earning Assets	18,405	33,495	16,790	16,064	8,178	6,367	18,967	8,508	7,776	13,754	8,495	11,601	168,400
Reserve Notes, net m other F. R. Banks	965	13,718	402	327		1,728	1,700	1,220	844			2,109	23,013
er resources.....	4,759		4,514	1,194	934	520	6,585	1,494	848	1,870	212	1,789	19,287(b)
	92	293	35	344	173	1,141	432	336	108	391	904	138	4,387
RESOURCES.....	44,728	215,951	44,346	43,174	29,611	22,393	77,162	24,064	22,384	29,045	25,226	30,549	603,201
LIABILITIES													
aid in.....	4,925	11,281	5,216	5,966	3,357	2,468	6,673	2,790	2,577	3,001	2,676	3,933	54,863
ment Deposits.....	3,867	15,681	5,680	1,251	7,580	8,646	6,291	3,562	734	1,560	6,185	3,462	64,499
Deposits, net.....	35,857	183,557	33,438	35,957	14,593	11,161	64,198	17,712	19,073	21,999	11,914	23,154	472,613
Reserve Notes-net Reserve Bank					4,015					762	4,451		9,228(a)
in circulation.....													
other F. R. Banks		5,432								1,723			1,723
er Liabilities.....	79		12		66	118							275
LIABILITIES.....	44,728	215,951	44,346	43,174	29,611	22,393	77,162	24,064	22,384	29,045	25,226	30,549	603,201

Total Reserve notes in circulation, 153,038.  
After deduction of items in transit between Federal Reserve Banks, 19,287, the Gold Reserve against Net deposit and note Liabilities is 70.9% and the cash reserve is 73.6%. Cash Reserve against net deposit and note liabilities after setting aside 40% Gold Reserve against net liabilities on Federal Reserve Notes in circulation, 74.2%.  
Maturities of bills discounted and loans: within 10 days, 14,451; to 30 days, 12,918; to 60 days, 31,680; other maturities, 30,654; Total: 89,703



plied, and additional abundance which raises the level of the common supply is more significant to the former. When the waters of a lake subside it is the shallow places, not the deeps, that are first uncovered.

### The Bond and Stock Market for June.

The most important bond offering in June was the Imperial Russian Government  $6\frac{1}{2}\%$  Loan. The terms of this loan present several new features in Government financing, which should be carefully noted by our investors. A credit of \$50,000,000 has been established in this country by American bankers for the Russian Government, and at the same time a credit in Russia for 150,000,000 rubles has been granted to our bankers, at the fixed ratio of three rubles per dollar. Principal and interest on the credit arranged here is payable in New York, in U. S. gold dollars. The credit will run for three years unless otherwise retired, as provided in the loan. The American bankers have an option during the three years to use the credit in Russia to purchase Imperial Russian Government 5-year  $5\frac{1}{2}\%$  bonds at  $94\frac{3}{4}\%$ , less a  $4\frac{1}{2}\%$  commission, on the basis of three rubles for the dollar. Applications for participation were in excess of the amount of the credit and the loan quickly advanced to a premium. It is now selling around 100%, yielding over 6.25%. In addition to this yield as a straight investment, the loan is safeguarded by payment in this country in U. S. gold, and offers an opportunity to profit by any future rise in exchange. The ruble is normally worth 51.456c., but on account of the decrease in Russian exports and heavy purchases abroad for the war, has recently declined to about 30.75c. This new loan, because payable in New York in dollars, is not only protected from loss in a further decline in the value of the ruble, but provides the privilege to exercise the option on the 5-year Imperial Government bonds, or use the credit in Russia for ordinary exchange operations if the value of the ruble goes up. The profit which may come from a rise in exchange is to be divided equally with the Russian Government. Should the credit in Russia be used, the credit in New York will be reduced correspondingly. This transaction has awakened new interest on the part of American investors in Russian resources, and the possibilities of profitable participation in the future development of that country.

Pending the investigation by the City of Chicago in regard to the unification of all the elevated and surface lines in the City, the Chicago Elevated Railways has announced an extension of its two-year notes for three years, at 6%, including the deposit of additional security.

Several bond issues of Canadian provinces and municipalities have been brought out in this market during June. Among these issues are \$4,000,000 Province of Ontario 10-year 5s on a 4.85% basis; \$4,000,000 Province of Quebec 10-year 5s on a 4.90% basis, and \$5,000,000 Government of Newfoundland 3-year 5s on a 5.20% basis. Following the practical closing of the English money market to Canadian financing, good bond issues of the Do-

minion are finding a ready market in the States. Such issues should appeal to our investors as being close at hand and similar in many ways to our own forms of investment.

Five Million Dollar Baltimore and Ohio  $4\frac{1}{2}\%$  Equipment Trust Certificates were sold at a 4.30% basis. A plan of reorganization has been announced for the Pere Marquette Railroad, the voluntary plan of reorganization for the Indianapolis and St. Louis R. R. has been declared operative.

Bond prices have declined fractionally, and the volume of sales on the New York Stock Exchange has decreased. The average price of 40 railroad bonds, as compiled by the *Wall Street Journal*, was 94.06 on June 24th, compared with 94.49 on June 1st. Daily sales on the Exchange to the close of June 24th averaged \$3,423,700, compared with \$3,791,000 in May, \$3,707,000 in April, and \$2,229,000 in June, 1915.

Stock prices have also declined during the month. The average price of 20 railroads, as compiled by the *Wall Street Journal*, was 105.45 on June 24th, compared with 107.06 on the 1st, and of 122 trials 121.20 on the 24th, compared with 122.00 on the 1st. The prices do not represent wider fluctuations that have taken place in individual stocks. Daily sales up to the 24th have averaged 4,000 shares, compared with 677,990 shares in May, 1,000 shares in April, and 423,300 shares in March, 1915. Railroad stocks still hold a favorable position, due to continued good returns, but the uncertainty of the companies to reach an agreement with employees in regard to wage advances has introduced an element of caution among traders in this class of securities. The commercial position of the States has become so well grounded in increased cash resources and production of commodities required at present by other nations, that influence of a fundamental character cannot have a permanent effect on security prices.

### Discount Rates.

Discount rates of each Federal Reserve Bank in effect June 28, 1916.

	MATURITIES				Agricultural and livestock paper over 90 days.	Trade acceptance
	10 days and less.	over 10 days to 30 days, inclusive.	over 30 days to 60 days, inclusive.	over 60 days to 90 days, inclusive.		
Boston.....	3	3½	4	4	5	3
New York.....	3	4	4	4	5	3½
Philadelphia....	3	4	4	4	4½	3
Cleveland.....	3½	4	4	4½	5	3
Richmond.....	4	4	4	4	5	3½
Atlanta.....	4	4	4	4	5	3½
Atlanta New Orleans br						C92-4
Chicago.....	3½	4	4	4½	5	D 3
St. Louis.....	3	4	4	4	5	3
Minneapolis....	4	4	4	4½	5	3½
Kansas City....	4	4½	4½	4½	5	3½
Dallas.....	4	4	4	4	4½	3½
San Francisco...	3	3½	4	4½	5½	3

A Rate for commodity paper maturing within 90 days.

B Rate for bills of exchange in open market operations; A -5%; paper bought, Dallas 3-5.

C Rate for trade acceptances bought in open market, without bank indorsement.

D A rate of 2 to 4 per cent for bills with or without memorandum indorsement was authorized on Dec. 21, 1915.

E Rate for commodity paper maturing within 30 days, 3½% over 30 to 60 days, 4 per cent; over 60 to 90 days, 4½ per cent; over 90 days, 5 per cent.



## **"City Bank Service."**

---

CORRESPONDENTS and depositors find this service unsurpassed. It is the outgrowth of 100 years' business experience and success.

The excellence of the service is attested by the continuous growth of our resources.

The service is available to you and might become invaluable. We should be glad to hear from bankers, merchants and manufacturers who contemplate opening a New York account or who may wish to establish new or additional banking facilities.

None too large; none too small.

---

**THE NATIONAL CITY BANK OF NEW YORK.**





1916

### General Business Conditions.

**N**OTWITHSTANDING the influence of midsummer weather there has been practically no let up in industry during the past month. Trade has been slightly less active, for it is between buying seasons, but mills and factories are sold so far ahead that there has been no relaxation of the pressure upon them. The market for munition stocks has been affected by reports that war business was nearing an end, but later news shows that there is no warrant for this opinion. All present signs are against an early termination of the war. The Allies have been inspired with new confidence and the Germanic powers are not disheartened. After two years of war, money is raised as easily as in the first six months. The reserves of the great banks of England, France, Germany and Russia are about as strong in proportion to their liabilities as they were a year ago. The Bank of England is in stronger position now than it was in July, 1915, its reserve on July 1st last being 28 per cent., as against 16 at the corresponding date. 1915. At the beginning of July, 1915, the gold reserve of the Bank of France against circulation was 32 per cent., of the Bank of Germany, 43 per cent., and of the Bank of Russia, 48 per cent. At July 1, 1916, the gold reserve of the Bank of France was 30 per cent., of the Bank of Germany, 37 per cent., and of the Bank of Russia, 47 per cent. These figures do not indicate rapid progress toward ruin.

The belligerents are all producing vastly more war supplies than a year ago, and the Allies are probably less dependent upon the United States than they were, but fighting at the present pace takes ammunition and supplies upon an immensely greater scale. When trade opportunities in all parts of the world are taken into the account there appears to be little probability of a decline of American exports while the war lasts.

The steel industry is working at high pressure and earnings for the last six months, and particularly for the last three months, have been phenomenal. The net earnings of the United States Steel Corporation for the second quarter of the year were \$81,000,000, and for the third quarter are likely to be more rather than less. In view of

## U. S. SECURITIES GOVERNMENT FINANCE ECONOMIC AND FINANCIAL CONDITIONS

NEW YORK, AUGUST,

the very favorable results and in partial compensation for the suspension of dividends last year the directors have authorized an extra dividend of 1 per cent. upon the common stock. The bulk of the earnings are kept in the treasury and will be expended for the improvement and enlargement of the company's facilities. The policy is being pursued by the steel companies generally. The Bethlehem Company will expend \$70,000,000 upon its new acquisition of the Pennsylvania Steel Company and the Carnegie Steel Company.

The expansion of industrial capacity is general. Despite the present high costs, business operations are active over the country. "Commercial and Financial Chronicle" publishes a compilation of building permits for cities shows an aggregate in the six months ended June 30th, of \$522,300,000 as against \$476,573 in the corresponding period of 1914. These figures have never been exceeded except in the first six months of 1909, when they were \$500,000. The explanation for this activity is the need for floor space, storage room and housing capacity have been imperatively demanded. People, as a rule, do not build when they can build cheaply, but when expanding business requires it, and they order machinery under the same circumstances.

The shipbuilding industry is being rapidly enlarged, and plenty of work is in sight for several years. The Senate program to build 150 ships for the navy, including 16 of the largest battle-ships and cruisers in the next three years is enough in itself to assure great activity in ship yards.

The railroads continue to have an undiminished traffic. The returns for May were as satisfactory as in other months preceding. For the year ended June 30, have doubtless set a new record in both gross and net earnings. Within the last week the principal carrier in England has found it again necessary to impose restrictions upon freight offerings. Unfortunately the danger of a strike still hangs over the country, the trainmen having undoubtedly given the officials full authority to call one. In the perilous condition of the roads they can afford to pay proper wages to their employees, but the



a legitimate interest in the controversy, his rights should be asserted at least to the extent of insisting that there shall be no interruption of service.

It is a deplorable fact that there are circumstantial and authentic reports going to show that in some instances, instead of being inspired to higher pay to greater productiveness, is being less efficient. In one instance under operation, a large employer, whose attitude toward labor is that of sympathetic consideration, reports that after raising wages three times in a year the output per man is in serious decline, less than before. The superintendents in immediate charge of operations attribute these results to indifference, loss of discipline, and the fact that other jobs can be easily had. It is needless to say that this development is disappointing to those who are sincerely interested in seeing the standard of wages and of living advanced, but it illustrates the fact that normal progress is by no means rather than revolutionary processes.

#### Crops.

The wheat crops are at a critical stage and reports from different sections are conflicting. The winter wheat crop has been harvested under good conditions. The acreage was reduced, but the stand over most of the territory was above the average, but the grain is of good quality. Spring wheat was doing handsomely up to the middle of July, but it has been attacked by rust and the damage may be serious. The price of wheat has advanced about 15 cents a bushel in the month. Fortunately the surplus of wheat from last year's crop is large and the wheat is available for consumption, during the coming year will probably be up to the average. The Canadian crop has promised to be above the average, but rust is spreading in the north-western provinces and it may share the fate of the wheat on this side of the line.

The corn crop had a late start but made respectable progress in July under the hot weather. It has now reached the stage where the heat will be damaging unless rains are timely. Reports from Oklahoma, Texas and Kansas indicate that a good harvest has been done, and rain is needed in over half of the important corn states. The hay crop is a heavy one but some loss has suffered from excessive rains. Oats and clover have been harvested in good condition, and promise a good yield.

The cotton crop is also in an uncertain state. The acreage is about twelve per cent. larger than last year's, and the promise up to the middle of July was for a crop of approximately 14,500,000 bales. Since then, however, the states from Texas to the Mississippi river have suffered from almost unprecedented rainfall, and the crop has undoubtedly been seriously injured. A large part of the country west of the Mississippi is suffering from drought. At this writing it is

difficult to estimate what the outcome will be. The consumption of cotton by American mills for the year ended July 31 has been approximately 7,500,000 bales, the largest on record, but the exports, about 6,200,000 bales, are light, on account of the closing of the markets of Central Europe. English stocks have been reduced, owing to the scarcity of ships and high charges, but freight rates are now much lower. The 1915 crop was about 12,000,000 bales, and the carry-over from the big crop of 1914 has been materially reduced. If the war should end, so that the bare markets of Germany and Austria-Hungary can be reached, the new crop is expected to bring a high price, but if these markets remain inaccessible and the crop is above 13,000,000 bales it is probable that there will be a glut of cotton to carry into the next year. The price at 13½ cents seems to be fairly well adjusted to the situation.

While the food crops are not as abundant as in some years they are likely to be fairly adequate to our needs. Live stock of every kind is bringing high prices. Wool is very high, owing to the embargo upon the product of Great Britain and the Colonies, and the extraordinary demand for the armies. Altogether the buying power of the agricultural population promises to be well sustained.

#### Foreign Trade and Exchange.

The figures for our foreign trade in the fiscal year ended June 30th last have been given out by the Department of Commerce. They show exports of \$4,334,000,000, imports of \$2,198,000,000, and a balance on merchandise account of \$2,136,000,000. The month of June contributed \$219,000,000 to this balance, being second to the month of May, when the balance was \$245,692,298.

Notwithstanding this enormous trade balance, accruing for the most part against Great Britain and her Allies, demand sterling exchange has been kept steady at a little below \$4.76, sustained undoubtedly by sales of securities in this market and the shipments of gold from Ottawa and London. The heavy movement of gold indicates that British holdings of securities have been withheld from the market during the late reactionary period, instead of being, as some have surmised, an influence for the decline.

The British government is proceeding with its policy of buying and borrowing American securities from British owners, and has been transmitting large amounts to its agents in this country. The probability is that those which it buys will be sold outright in this market when that can be done without loss. And presumably many have been sold. The Chancellor of the Exchequer by way of explaining the fact that Treasury expenditures have been running at the rate of \$30,000,000 per day, recently stated that actual expenses were not exceeding \$25,000,000, the former figures including the purchases of American securities.



The general policy of the government in acquiring these securities, in laying an extra 10 per cent. tax on income from them, and an explanation and defence against criticism, was made in Parliament recently by Mr. Montague, of the Treasury. It is reported:

Mr. Montague said that no securities would be liable to the tax unless the Treasury were willing to take them either on purchase or on deposit. As the Treasury did not want to be snowed under by thousands of offers of small amounts of securities they fixed the limit at 5,000 dollars, but they were perfecting a scheme by which holders of smaller amounts than 5,000 dollars, who wanted to lend or deposit, would be enabled to do so, through the kind agency of the banks, by joining together and forming larger amounts. The reason for the delay in the publication of the lists of securities was that the Treasury wanted to regulate the stream of offers from week to week. They believed that 60 per cent. of what they required would be derived from the lists now published, and when they were got rid of, other securities would be dealt with more quickly. Another reason for the delay was that the Treasury did not want to be the possessor of a larger amount of securities than they could dispose of. Every effort was made to exclude from the lists securities they could not find a market for, or which might remain in their hands for such a time as to become a dangerous possession. He thought the vital necessity of the State had been lost sight of in some of the criticisms of the scheme. It was necessary to buy enormous quantities of goods from America. The only ways those goods could be paid for were by gold, by exporting manufactures which the Americans would buy, or by dollar securities. We had not an unlimited supply of gold, there were obvious limits to the amount of goods we could manufacture for exports, but dollar securities were things which Americans were willing, not only to buy, but to lend money upon. Unless we mobilized our resources, unless we could pay for the goods we required, the supply would stop. It was absolutely essential that the Government should have the rights they were seeking in order to carry on the war and to supply our soldiers with munitions. They were discriminating between one kind of property and another, because at the moment they had no use for other forms of property, but if the time should come when they could use any other kind of property in order to carry the war to a successful conclusion the Government would not hesitate to say what was wanted, and he was convinced that the House would readily respond to their appeal.

From week to week the list has been enlarged, and now numbers nearly 1200 issues of stocks and bonds, including numerous Canadian issues.

It is probable that Canadian provincial and municipal indebtedness as it matures will be refunded in New York. Canadian credit is good in this market, on the strength of a belief that after the war immigration from Great Britain to the colonies will be large, and that Canada will be the most popular colony. There is a large amount of Canadian indebtedness in London which can be transferred without waiting for maturity, and it will come along with or next after American securities. London exhibits no misgivings as to its ability to support the exchange situation as long as the war may continue. The "Statist" says that, "beyond our American securities Great Britain possesses over £3,000,000,000 of other foreign stocks of one kind or another, and then there are immense quantities of British securities of the highest class available."

The manner in which these securities can be handled in the United States is demonstrated by

the recent French loan. In this instance a company was formed here called the "American Foreign Securities Company," with a paid-up capital of \$10,000,000. This company undertook to place \$100,000,000 to the government of France for the security of \$120,000,000 par value of securities which the French government has borrowed from the citizens of France. This collateral consists of the obligations of the governments of Argentina, Uruguay, Sweden, Holland, Switzerland, United States, Brazil, Egypt, Spain, Suez Canal shares and other obligations of American corporations. The French government agrees to furnish additional collateral when needed to keep the security approximately 20 per cent. in excess of the face value of the loan. The collateral will be deposited with the Bankers' Trust Company of New York. The American Foreign Securities Company issues its own notes, secured as above, and these notes will be listed on the New York Stock Exchange. The loan is for three years from August 1st at 5 per cent., and will net 5¾ per cent. It has been well received.

The French government will pay the interest on the borrowed securities a bonus equal to 10 per cent. of the gross income upon them, the government retaining the regular income.

### The Money Market.

The money market was disturbed for several weeks about July 1st by the extraordinary movements which fell together at that time. The important factor in these consisted of the payments to the government on account of the income tax. From June 15th to July 1st the general fund of the Treasury rose from \$135,466,541 to \$715,054. Not all of the \$101,000,000 increase was locked up in the Treasury, for about \$20,000,000 was accumulated temporarily in national banks serving as active depositories for revenue and Treasury deposits in the Federal Reserve banks were increased \$61,000,000. Treasury deposits in national banks are, however, understood to be temporary, and the banks do not feel free to use them, and deposits in Federal Reserve banks do not promptly affect the money market.

Besides the payments to the Treasury, a large share of which were made in New York, there were the regular mid-year interest and dividend disbursements, amounting to several hundred million dollars, and on July 3d payments upon the Russian loan of \$50,000,000, together with other important calls. The effect of all this sinking of funds was to withhold money from the market while it was going on. Call money stiffened to five per cent. and touched six per cent., although not much was loaned at the latter rate. The money market was affected in less degree but moved to a higher level than it has reached since it collapsed after the early months of the war.

That bankers regarded the flurry as due to temporary causes is evident from the fact that they did not resort to the Federal R



for rediscounts. As yet there has been little recourse to the system. On July 21st total of all bills discounted and bought by the banks was \$114,319,000, and of these \$28,-000 were rediscounts for members and \$85,-000 were bought in the open market. The New York reserve bank held \$281,000 of rediscounts and \$29,730,000 of bills purchased in the month.

The surplus reserves of the Clearing House of New York were down on July 8th to \$6,000, the lowest point they have touched since the new system of reserves went into effect. On July 15th they were back to \$95,109,000, and on July 22nd to \$108,000,000. This recovery is due in large part, however, to gold importations from Canada and London. Notwithstanding these imports, deposits at the latter date were at the lowest point of the year. Loans were lower than at any previous date this year. Country bank balances are considerably lower in April, and but for the importations of gold which have aggregated about \$200,000,000 at the beginning of May, it is evident that there would have been a greater effect upon interest rates and probably a greater resort to the Federal Reserve banks. Country bank borrowing at the centers are unusually light.

There seems to be nothing in prospect promising further disturbance during the remainder of summer, but the demands of business for money and credit are upon an unprecedented level and rates may be expected to work firmer. Notwithstanding but a continuance of gold imports can keep them down, and we may expect foreign banks to take up a portion of the credit which the Federal Reserve banks make available.

The reports of dearer money in the United States caused the Bank of England to raise its discount rate on July 13th from 5 to 6 per cent., the first change made since the month of August, 1914. The action was taken to offset any movement to withdraw money from London for investment in New York. Following the Bank's action the Committee of London Clearing Bankers increased the rate on deposits one-half per cent. and bankers made a similar advance for money at call and notice. The open market rate on commercial bills is 5½ to 5¾.

The British government has been meeting its needs for the past six months by the sale of Treasury bonds, drawing 5 per cent., and Treasury bills running from 4½ to 5 per cent. In the rate on all issues of Treasury bills, which run for 3, 6, 9 and 12 months, was made 5 per cent. Following the advance in the Bank of England's rate, the rates on Treasury bills were increased to 5½ per cent. for three months, 5¾ per cent. for six months, and 6 per cent. for one year. The government is disposed to postpone the making of another long-time loan as long as possible as it will probably have to be at a higher rate than the last one, and as the old loan carries the privilege of conversion into any new one the

effect will be to raise the rate on much of the outstanding indebtedness.

The expenditures of the British government for the three months ended June 30 were approximately \$2,222,795,000, as compared with \$233,080,000 in the corresponding period of 1914. The income for the period was, approximately, \$365,000,000 from revenue, \$975,000,000 from Treasury bills, \$615,000,000 from the five-year Exchequer bonds, and \$233,000,000 from other forms of indebtedness.

On July 1st the last price restrictions upon trading on the London stock exchange were removed. The minimum list was largely reduced over a year ago, but trading has now been made entirely free, except that the ban remains against foreign investments.

The call rate in New York last week ranged from 2 to 2½ per cent. Commercial paper, choice names, is costing borrowers about 4½ per cent. Eligible bank acceptances are on a 2½ basis and upwards.

The Federal Reserve banks have responded to the firmer feeling in the money market by advancing their rates in several instances, as appears by the table elsewhere.

The stock of money in the United States on July 1st, 1915, and 1916, and the amount of each kind, is shown by the following statement:

	1916	1915
Gold coin, including bullion		
in the mints .....	\$2,439,921.932	\$1,993,549.015
Silver dollars .....	568,270,900	568,272,478
Subsidiary silver .....	187,378.094	185,331.865
United States notes .....	346,681,016	346,681,016
Federal Reserve notes.....	176,168,450	84,260,500
Federal Reserve bank notes	9,000,000	
National bank notes .....	744,174,660	819,273,594
	<b>\$4,471,595,052</b>	<b>\$3,997,368,468</b>

On July 1, 1916, the Federal banks and reserve agents held \$151,577,000 in gold for the redemption of outstanding Federal Reserve notes, against \$62,365,000 so held July 1, 1915.

The net importations of gold for the fiscal year ended June 30 last were \$404,000,000, a sum about equal to the entire production of gold outside of the United States last year.

On July 24, 1916, the gold holdings of the Treasury aggregated \$1,848,935,261.

### The Bond and Stock Market for July.

The month of July is almost invariably a dull period for the securities market as a result of the large number of absentees from banking and investment circles, and the volume of business in both stocks and bonds during July, 1916, has shown a decline as compared with previous months. The average daily sales of bonds on the Exchange up to the close of business on the 24th of July were only \$2,473,632, as compared with a daily average of \$3,261,000 for June and \$3,791,000 for May; but these sales compare favorably with those of July in the previous year, when a daily average of \$2,098,000 was reported. Bond prices generally moved in a narrow range. The average price of forty listed bonds, as



compiled by *The Wall Street Journal*, was 93.80 on July 24, compared with 93.97 on July 1, and 94.49 on June 1. A marked feature of the trading during the period was the demand for tax exempt securities, probably due in part to the proposed increase in the income tax. This has resulted in slightly higher quotations for municipal issues. Among Government securities the Anglo-French 5% Bonds were dealt in extensively, the price ranging from 95¼ to 96, and the steady absorption of this issue by investors continues. The Japanese Government 4½s and the Dominion of Canada issues were also fairly active. The Russian credit has met with favor on the part of investors and the certificates have been selling at a premium over the offering price. Good railway bonds have been in demand, but there is little change in their quoted values.

Daily sales of stocks up to July 24th averaged 403,040 shares, compared with 493,224 shares in June, 677,990 shares in May, and 552,300 shares in July, 1915. Prices of both railway and industrial stocks declined severely during the month but have recovered to some extent. The average price of 20 railroads, as compiled by the *Wall Street Journal*, was 104.43 on the 24th, compared with 105.78 on the 1st, while the average price of 12 industrials was 122.33 on the 24th, compared with 120.96 on the 1st. The advance of call money during the month to 6%, a rate that had not been quoted previously since the months following the outbreak of the war, had a depressing influence upon the market, but the high rate proved only temporary and call money has ruled lower since. The advance was largely due to the half-yearly settlements and the large income tax payments. Later the rate reacted to around 3%, and subsequently fluctuated around 2½%.

A syndicate of New York and Baltimore bankers has purchased \$3,500,000 State of Maryland 4% Bonds, which have been offered to the public on a 3.90% basis.

The Pennsylvania Railroad Company has sold \$20,000,000 9-months Notes to New York bankers. The notes have been placed privately with investors on a 3.87½% basis.

The New York Central Railroad Company has sold to Cleveland interests, its holdings in the New York, Chicago & St. Louis Railroad Company. It is understood that improvements will be made in the Cleveland passenger and freight terminals, which will be used jointly by other railroads and various interurban electric lines.

## Government Bonds.

During the month of July there has been an unusually heavy inquiry for high grade municipal and territorial bonds as a basis of collateral for postal savings funds. Reports from all parts of the country show that the amount of money deposited in postal savings banks during the month has been large, due in part to the prosperity of the class who place their savings in these banks and in part to the fact that postal savings legislation of May 18, 1916, removed the limit on deposits of \$500 per year

by any one individual and increased the amount which might be deposited to \$1,000.

Another reason for the heavy demand for territorial bonds is that the Treasury Department about every six months requests postal savings depositories to issue with it additional bonds in anticipation of the lodgments of funds with such banks. In some communities postal savings come in slowly and requires about the six months' period for the accumulation of collateral to be covered.

The territorial bonds—Philippine, Porto Rican and Hawaiian—are taken at par to secure postal savings funds and are much sought after for that purpose. Many of the banks prefer high grade municipal bonds on account of their higher interest yields, but in most instances the profits are derived from the use of territorial bonds is great, as the fact that the latter are accepted at par offsets the higher yield on the municipal bonds, which are accepted at ninety per cent of market value, not to exceed ninety per cent.

The market for the straight government bonds has been rather inactive during the month, but a few banks increased their circulation accounts as the Federal Reserve Banks will probably be in the market for additional bonds until the next quarter, beginning September 1st.

## Appropriations and Revenues.

The principal appropriation bills to cover the expenditures of the Federal government for the year ending June 30, 1917, have either become law or are pending in conference between the Senate and the House. The Senate has made large increases in the sums proposed by the House, so that new revenues will have to be found or the proposed expenditures increased. The status of the several bills and the figures for last year's appropriations for the same purposes, are given in the following statement:

Title	Regular annual appropriation 1916	Regular annual appropriation 1917	In 1917
Agriculture .....	\$22,971,782.00	\$25,230,527.00	\$2,258,745.00
Army .....	101,974,195.83	\$13,970,447.10	211,500,000.00
Diplomatic & consular .....	4,061,280.01	* 5,355,096.66	1,293,816.65
Dist. of Columbia .....	11,859,584.45	\$ 14,952,002.96	3,092,418.51
Fortifications ....	8,060,216.90	* 25,747,550.00	19,687,333.10
Indian .....	9,771,902.76	* 10,967,644.88	1,195,742.12
Legislative, executive & judicial ..	36,904,799.75	* 37,925,690.25	1,020,890.50
Military Academy ..	1,069,813.37	\$ 2,238,328.57	1,168,515.20
Navy .....	149,661,864.88	\$15,826,843.54	165,488,708.42
Pensions .....	164,100,000.00	*158,065,000.00	6,035,000.00
Post Office .....	313,364,667.00	*322,937,679.00	9,572,912.00
Rivers & Harbors ..	30,000,000.00	* 40,598,135.00	10,598,135.00
Sundry Civil .....	126,222,750.70	*128,299,285.24	2,076,534.54
Total regular annual bills .....	978,022,857.74	1,402,114,230.20	424,081,372.46
Permanent annual appropriations ..	121,567,207.00	135,074,673.00	13,507,466.00
Total .....	1,099,590,064.74	1,537,188,903.20	437,588,838.46
Deficiencies .....	12,316,343.90	53,567,298.34	41,250,954.44
Total .....	1,111,906,408.64	1,590,756,201.54	478,839,792.90
Miscellaneous ....	2,330,603.34		
Nitrate Plant .....		20,000,000.00	
Good roads .....		6,000,000.00	
Rural credits .....		15,000,000.00	38,700,000.00
Shipping bill .....		50,100,000.00	50,100,000.00
Total .....	1,114,237,011.98	1,681,856,201.54	567,700,000.00

† As passed Senate.

§ As reported to Senate.

\* As enacted into law.

† Decrease.

|| \$50,000,000 of this appropriation is to be met by



Ways and Means Committee of the House the total expenditures to be covered at \$1,000,000, of which the amount required for conduct of the postal service is met by postal stamps, and it proposed a bond issue of \$125,000, to meet the special expenditures on the Mexican frontier. Deducting the sinking fund apportionment and making some other allowances it estimated, the revenue must be provided in the sum of \$22,000. This it proposed to supply by increasing the income taxes, establishing a federal tax on states, by special taxes upon munitions, and by adding some of the taxes of the war revenue act, and the stamp taxes. The revenue bill, as introduced to the House, was estimated to yield new revenue in the present fiscal year as follows:

Income tax .....	\$107,000,000
State tax .....	17,000,000
Munitions tax .....	71,000,000
Miscellaneous taxes .....	2,000,000
	<hr/>
	\$197,000,000

The remaining sum required, \$69,922,000, the committee proposed to obtain by reducing the sinking fund of the Treasury. The Committee estimated that when the Estate tax came into full force the receipts would amount to \$54,000,000 per annum. The bill passed the House substantially as prepared in the Committee, one of the changes being the dropping of the present tax on banks.

The bill proposed a tax upon personal incomes of less than \$10,000 and the tax upon corporation incomes reduced from one per cent. to two per cent. Exemptions of \$3,000 for a single person and \$5,000 for the head of a family remain. The classification for super-taxes is materially altered. The taxes increased, as will be seen by the following statement, which shows the classification of additional taxes under the present law and under the pending bill:

Present Law	Pending Bill	Rate of Add tax
Exceeding \$20,000 and not more than \$50,000	Exceeding \$20,000 and not more than \$40,000	1%
Exceeding \$50,000 and not more than \$75,000	Exceeding \$40,000 and not more than \$60,000	2%
Exceeding \$75,000 and not more than \$100,000	Exceeding \$60,000 and not more than \$80,000	3%
Exceeding \$100,000 and not more than \$250,000	Exceeding \$80,000 and not more than \$100,000	4%
Exceeding \$250,000 and not more than \$500,000	Exceeding \$100,000 and not more than \$150,000	5%
Exceeding \$500,000	Exceeding \$150,000 and not more than \$200,000	6%
	Exceeding \$200,000 and not more than \$250,000	7%
	Exceeding \$250,000 and not more than \$300,000	8%
	Exceeding \$300,000 but not exceeding \$500,000	9%
	Exceeding \$500,000	10%

The policy of collection at the source is continued, although experience has shown that this is a very considerable burden upon the collecting agencies, and the same results to the government might be obtained from information at the source.

## Taxation on Aliens.

The bill clears up the controverted point in the present law as to the liability of aliens upon income derived from property located in the United States, by making them liable. Foreign holders of American securities will therefore have to pay a double tax upon so much of their incomes as they receive upon American securities. The right of this government to levy upon income accruing upon property in the United States can hardly be questioned, but the expediency of doing so is very doubtful. The income taxes of European countries, and particularly of Great Britain, which is the chief foreign market for our securities, are very heavy, and bound to be so for many years, and additional taxes by the United States will undoubtedly tend to restrict investments in this country. The immediate effect will be to help the British government's campaign for the sale of British holdings of American securities, and after the war is over, when British investors look abroad again, this tax will count against the United States and in favor of countries which will be inviting capital.

An income tax is not intended to be a property tax or a tax upon business, but a personal tax upon net income from all sources. All properties located in this country upon which foreign holdings of our securities are based pay the usual property taxes here, and it is of very doubtful wisdom to impose income taxes upon non-resident aliens, particularly at this time and for the period following the war. Our securities are coming home quite fast enough without additional pressure from the government at Washington, and at the end of the war, when it is to be determined the important question of how much gold Europe can draw from us, it will be very desirable that there shall be no obstacles to the sale of our securities abroad. For every dollar of our securities that we can sell in Great Britain or Europe we will have a dollar for investment at home or in the newly developing countries where we are seeking trade. Heretofore, whatever differences of opinion there have been upon the wisdom of a protective tariff upon goods, nobody has ever advocated a tariff upon foreign capital employed in this country.

## Special Taxes.

Nobody likes to pay taxes, but it is obvious that the revenues must be increased to meet the many expenditures that are planned. They are supposed to be emergency appropriations, but many of them necessarily involve continuing outlays. This, of course, is true of additions to the army and navy, and of every new commission. The more the Federal government does within the province formerly reserved to the states the more it will be asked to do. The authorization of an expenditure of \$85,000,000 from the federal treasury to be apportioned among the states for roads is an illustration of the tendency. This offering is made in the form of a bonus to stimulate state activity, and it may have good results,



but there is danger in the fact that money from the federal treasury is commonly regarded as of the nature of a bonus. The federal treasury has always seemed to be fed by unseen springs, and it will seem so more than ever in the future, with enormous income taxes paid by less than one per cent. of the population, and the precedent for other taxes aimed at selected industries, upon off-hand opinion that they are able to stand it.

It is a recognized principle of taxation that taxes should be arranged to interfere as little as possible with industry, and to be light upon the common necessities of life. Luxuries have always been fair game for the treasury. Presumably a man will not buy luxuries until he has provided the necessities, and if this were always true a tax upon the former would only reduce his purchases in that quarter. Unfortunately, there are people who reverse the order, but they can hardly expect systems of taxation to be adapted to them. The expenditures which people do not need to make, and which when made are unproductive, aggregate a very large amount among all classes, and it is against these that taxation should be directed. It harms nobody to pay a little upon his indulgences and vanities, and it is wholesome for everybody to realize that he is paying something for the support of the government under which he lives.

One of the objections to raising vast sums by income taxes which reach only a few is that there is no general understanding of the real cost of this appropriation to the public. It is not clearly understood that these sums are taken from the community's capital fund, thus lessening the productive wealth which is the most potent agency of community progress. The fund which it is first of all important shall be protected from impairment is that devoted to sustaining the health, strength and productive capacity of the people themselves. The fund of next importance is the savings, or surplus, which, if not dissipated, will be used for construction and industrial development, thus enlarging the productive capacity of the population. Between these two funds is a zone of expenditures wherein an enormous waste is constantly occurring. It is within this zone, so far as practicable, that taxation should fall. When people labor under the impression that taxes wrung from the rich involve no cost to others, and that it is really beneficial to reduce the "swollen" fortunes, the situation threatens the progress of the community.

### Mexican Situation.

Washington's negotiations with Mexico are proceeding amicably, but the real difficulties are yet to be encountered. The country is prostrate, much of it devastated, transportation facilities crippled and industries idle. Agreements about how troops may be used to maintain order on the border do not go to the root of the trouble. Somehow, employment must be provided for the people before peace can be restored. A report from General Bell to the War Department, is

reported as referring to General Herrera, Aranza's staff, as follows:

"Herrera believes in getting the mines in operation encouraging foreigners to start work with their enterprises."

This statement has a pertinent application to the ignorant chatter about the "exploitation" of Mexico by foreign investors. A very large amount of American capital has been invested in Mexico, and much of it was lost even before the disorders of the last five years had begun. American investments have been largely of a hazardous class. They have been of a class, however, which gave employment to labor, and in whatever locality they have been made, wages have been advanced by their influence. The wealth that has been taken from Mexico by outside capital is wealth that would not have come into existence without the use of outside capital, and the people of Mexico were immensely benefited by the development work that was done. The condition of the laboring class was much better where foreign capital was providing employment than in other districts. Moreover, without the development work the industrial world could not have had the supply of useful metals and other products which have composed the exports of that country.

Thousands of American citizens own a wide variety of interests in Mexico, and would be glad to see peace and order restored to the country. There is no reason to believe that any number of them have plotted against the peace of the country, but it would not be strange if some of them did. I believe that the best interests of Mexico would be served by intervention on the part of the United States. A great many people, both within and without Mexico, are convinced that the restoration of the country is a long way off unless outside authority gives protection for the restoration of industry. Where so many interests are involved no sweeping statement can be confidently made, but certainly it is true that the best known American industrial companies in Mexico have been patient and quiescent—content to have this government determine its course upon general principles of equity and the interests of both countries. It is a noteworthy fact that the stocks of these companies sold at the lowest points for the year in the days a few weeks ago when intervention seemed highly probable.

The Mexican situation is undoubtedly a perplexing one. There is no influence worth mentioning in this country in favor of annexation. The restoration of order and protection to life and property is all that anybody wants. The government is justified in demanding protection to its citizens in a foreign land, and in resorting to force if its demands are ignored. But its demands are usually addressed to a responsible government, while in Mexico there is no effective authority. Under such conditions it is necessary to either bear with the disorder as for the time being irremediable, or to go into the country



h an armed force and attempt the task of  
ing it. This task it is agreed is a repug-  
e to the American people. The fact that  
as been no pressure upon the administra-  
take this step throughout the long period  
ages covered by the recent note of the  
ry of State to the defacto Mexican govern-  
s proof of this. It is to be hoped that  
ing results will come from the negotia-  
now pending. But after all this is said,  
ople would take the position that endless  
y and banditry should be tolerated in Mexico,  
d the consequent disturbance to our border  
complete sacrifice of foreign interests in  
and indifference to the appalling sufferings  
innocent inhabitants of that country. The  
States could not forever justify such an at-  
o the other countries of the world.

### Reserve System.

new collection rules of the Federal Re-  
system have been in effect since July 15th,  
cials report that a large proportion of the  
banks are co-operating. In every town  
there is a national bank it can be used as a  
n of collection, but in many others the  
banks are voluntarily remitting at par. In  
England every bank has come into the sys-  
At the request of the Secretary of the  
ry, the Postmaster General has assented  
arrangement under which in towns where  
s no member banks, collection upon State  
may be made through the Post Office.

Federal Reserve banks at Chicago and  
City have declared dividends, bringing  
nber of dividend-payers up to four. Rich-  
and Dallas are the other two. The earn-  
the Chicago and Kansas City banks were  
from holdings of government bonds, of the  
two from re-discounts.

Earning assets of the system are steadily  
ing, and on July 22nd last aggregated  
8,000, as against \$96,734,000 on January  
5, and \$62,456,000 on July 23, 1915.

Federal Reserve Bulletin makes the state-  
however, that the total discounts of all the  
for the first five months of this year ag-  
ed only \$50,883,600, as compared with \$59,-  
in the corresponding period of 1915.

of the most notable accessions to the Fed-  
reserve system since it was organized was  
uced during the past month, the Corn Ex-  
Bank, of New York, having decided to

er the Kern amendment to the Clayton  
ust act, now effective, the provision of the  
against interlocking bank directorates and  
s, will not apply in instances where, in the  
ent of the Federal Reserve Board, the  
are not in substantial competition. The  
has issued a circular to Federal Reserve  
advising them that no fixed rule can be  
bed governing such cases and that each

case will be decided upon the facts presented.  
The consent of the Board must be obtained in  
each case.

### The American International Corporation.

In November, 1915, application was made to  
the State of New York for a charter for the  
"American International Corporation," and the  
December number of this publication gave an ac-  
count of the proposed organization. The capital  
was to be \$50,000,000, one-half to be offered to  
stockholders of this Bank and the remainder to  
be placed with selected parties interested in the  
promotion of American foreign trade. A Board  
of Directors composed of men prominent in  
American business life was chosen, with Mr. F.  
A. Vanderlip as Chairman and Mr. Charles A.  
Stone, of the Stone & Webster corporation, as  
President.

Our readers will recall that the object an-  
nounced was that of creating an expert and re-  
sponsible organization which would serve as an  
agency for investigating opportunities for invest-  
ment and trade development abroad. The Bank's  
observations through its branches in South  
America had led to the conviction that the first  
requisite to the establishment of more intimate  
relations between the United States and the  
countries of Latin America was for this country  
to take a more active part in the industrial  
progress of these neighbors. They are countries  
of great natural resources, but requiring capital,  
and in the past they have been obliged to look  
almost entirely to Europe. The large under-  
takings being financed in Europe, the expendi-  
tures for machinery and supplies were naturally  
made there, and business relations were more  
intimate with Europe than with this country.

The effect of the war was to suspend Euro-  
pean investments in other parts of the world and  
turn applications in this direction. Furthermore,  
the great expansion of our industries in recent  
years, and particularly within the last year, has  
made it highly important that we find a larger  
outlet for their products abroad. In order to do  
this we must aid the developing countries to buy  
equipment from us, to increase their own pro-  
duction, and to become larger consumers of all  
we have to sell. This policy is not inimical to  
the interests of any country; it means develop-  
ment, progress, an increased production of the  
commodities of trade, more trade for everybody  
and more goods for consumption everywhere.

It was recognized, however, that in order to  
find capital in the United States for foreign en-  
terprises, some competent agency must examine  
the propositions presented, select the good ones,  
supervise their development, and stand respon-  
sible for them to American investors. This was  
the function which the American International  
Corporation was organized to perform.

The creation of such an organization is no  
small task, but although little more than six  
months has elapsed since it was begun, good



progress has been made. One-half of the authorized capital has been called in, a large number of important propositions have been placed under investigation, and representatives have been sent not only to several countries of South America but to China, Russia, and other parts of the world.

In the first place, a general policy as to investments was settled upon, to wit: to give the preference to undertakings of the largest public importance, and calculated to establish permanent financial and trade relations between the United States and other countries. To further this end most effectually it was determined to co-operate with other American corporations or American engineers where they had meritorious foreign projects to present.

### The First Contract.

One of the first accepted projects came in the latter class. The engineering firm of Ulen & Co., of Chicago, had in hand negotiations with the government of Uruguay for the construction of waterworks and sanitary works in three cities of that country. The contract had been originally let to a firm in Paris, which had been obliged by the war to drop it. Payment was to be made in bonds of the national government. Ulen & Co. had reached an agreement with the government as to contract terms, but found difficulty in disposing of the bonds. It laid the case before the American International, and an arrangement was effected by which the latter takes the bonds and supplies the money, and the Stone & Webster Engineering Company becomes associated in the undertaking. The arrangement was made in February, and already the engineers, superintendents and foremen have sailed, and large quantities of machinery have been forwarded. The shipping situation was so uncertain that the American sailing vessel, *Alice M. Colburn*, of 2600 tons, was purchased to carry equipment. The contract is to be completed in three years and will involve the purchase of quantities of cement, steel, tools and machinery which probably would have gone from Europe if the contract had been carried out as originally let. The total expenditure will be about \$5,000,000.

### Shipping Investments.

The disorganized state of ocean shipping and the embarrassment arising from it to American foreign trade was brought immediately to the attention of the Corporation. The Southern Pacific Company, operating the Pacific Mail Steamship Company, had determined to retire altogether from shipping on the Pacific ocean, and had sold its large ships of the trans-Pacific line, leaving the Asiatic trade without any ships carrying the American flag. It was negotiating for the sale of five ships engaged in the coasting trade from San Francisco to Panama, a line which had been in continual operation for fifty years, and these ships were likely to be transferred to the Atlantic. The loss of this line would have cut off communication between the

Pacific ports of the United States and the western ports of Mexico and Central America to the construction of an important trade. Petitions to the Chambers of Commerce on the Pacific Coast to the Corporation to take over the Pacific Mail to maintain this service, and the Corporation succeeded in effecting an arrangement with W. R. & Company, extensive ship-operators, by which it was done.

Having become interested in the shipping situation, and regarding it of vital importance to foreign trade, the Corporation then acquired a substantial interest in the International Mercantile Marine Company, undergoing reorganization. This company is the largest owner of shipping in the world. British interests predominate in it, but it is every reason to believe that American control will have fair treatment at its hands. The American International has also acquired an interest in the United Fruit Company, owning extensive plantations and other interests around the Caribbean, operating a fleet of steamers in that trade. The Corporation is having a careful, dispassionate study made of the shipping problem, with a view to determining the practical effects of American control upon the business of operating ships under the American flag. The problem is evidently closely related to the development of our foreign trade.

### Selling Agencies.

The Corporation has taken over the Allied Machinery Company, a company previously organized to act as foreign sales agents for certain American manufacturers of machine tools. Comprehensive plans for the development of this company have been made. Permanent offices will be established in Europe, ample stocks of machinery carried at convenient points, and an efficient corps of men employed. This organization is doing a largely increasing business and will be on the ground after the war to represent American manufacturers in the work of rehabilitating the workshops of Europe for peaceful industry. This company, with co-operation of American steel manufacturers, recently handled a Russian order for 170,000 tons of steel rails.

It is probable that selling arrangements for machinery and other goods will be effected.

### Latin-American Corporation.

The Latin-American field is so large, and so deserving of careful attention, that after a preliminary survey a determination was reached to organize a subsidiary company to be devoted entirely to the investigation and handling of propositions in that quarter. This company has been organized under the laws of Maine, as the "Latin-American Corporation," with an authorized capital of \$1,000,000. Mr. Charles A. Stone, President of the American International Corporation, is president of this corporation. Mr. R. P. Tinsley, Treasurer of the American International will be its Treasurer and its directors, so far as announced are Mr. Stone, Mr. Tinsley, and Messrs. W. S. Kies, Henry and Thomas W. Streeter.



organization will include an expert engineering construction staff, and will be equipped not for construction but for the operation of all properties. This corporation has under consideration numerous specific projects including the construction and rehabilitation of existing tramways, the construction of public works, including water supply systems, sewerage systems, and harbor improvements, and the construction and development of all ways. As far as possible it will be the policy of the new corporation to retain a substantial percentage of interest in the projects which it undertakes, and it will participate in future earnings. It will thoroughly investigate engineering and construction questions presented to it and will tender its services to all South American governments and municipalities in planning public works.

One of the works in prospect in South America is to be financed through issues of government or municipal securities. Though the intrinsic value of these securities is not generally known to the American investor, and hence their market in this country is now limited, the new corporation is in possession of exact information regarding them, and is entering into contracts for the various projects which it has under consideration in order to assure itself of the entire safety of the investments which it accepts in payment and for their liquidation out of earnings. It will be the policy of the American International Corporation to make investments in securities which it so receives the basis for its issues of debentures. The American investor must be secured by the paid-up capital of the corporation in addition to the obligations that have been accepted by the Corporation.

The Latin-American Corporation will have headquarters for its South American activities at Buenos Aires, and the staff for that office sailed for New York last week. One of the members of the party is Dr. R. P. Strong, who had charge of the Red Cross relief organization which stamped out typhus fever in Serbia last year. Dr. Strong is now in charge of sanitary works.

### A Terminals Corporation.

In making a study of the export trade and of the shipping services the officials of the American International Corporation were quickly impressed with the importance of port facilities and adequate terminal accommodations where the transfer of goods from one country to another where there is so great an opportunity for reducing delay where this transfer between rail and ocean transportation takes place. Every hour's delay in a ship waiting to load or unload her cargo is paid for in her charges, every day's delay in a ship waiting to be unloaded must be paid for in her charges, and every unnecessary handling of goods is a tax on the traffic, not to speak of the other costs and vexations of freight congestion and delay. The failure to get goods unloaded promptly, and to render reliable service,

is more serious in any trade than the increase in charges. When American producers are competing in the markets of the world, this matter of efficient and economical service at the ports is bound to be an important factor.

Of course, adequate terminal organization is important, not only for foreign trade but for the domestic commerce. The problem has become acute at every railway center of the country, chiefly because of a lack of comprehensive planning, and of a coordination that would include all of the factors of the situation.

The port of New York in volume of traffic is first in the world. The imports and exports through it for the fiscal year ended June 30, 1916, aggregated \$3,500,000,000, and for the fiscal year 1914 were over \$2,000,000,000, which surpassed London and Hamburg. Approximately one half of this country's foreign trade passes through this harbor. Eighty-three ocean steamship lines maintain regular sailings to and from this port and as a railway center it is second only to Chicago. Not only is it a great commercial city but it is the greatest manufacturing center in the country. Its production of manufactured goods in 1910 was greater than that of any State in the union except Pennsylvania. There is an enormous volume of traffic to and from the city, and not only is there a serious charge upon goods passing through, but the cost of living for the millions of wage-earners in the city is enhanced, by the want of a comprehensive system for handling, distributing and warehousing freight. There are few piers in New York harbor where ships can be brought alongside of railway tracks.

The "American International Terminals Company" has been organized under the laws of Delaware, by the National City Company, Stone & Webster, and the American International Corporation. It will make a thorough study of terminals, and of course New York harbor will receive special attention, but the purpose is to make a specialty of terminal organization and construction, including warehousing, and the services of the company will be obtainable by other cities of this and foreign countries. Stone & Webster, who are associated in the enterprise, are known to be one of the leading engineering firms in the country, and the company has secured the services, as a terminal expert, of Mr. W. H. Lyford, for thirty years connected with the largest terminal railway system in Chicago.

### Organizing for World Work.

The foregoing is a sketch of the more important accomplishments of the first six months. A vast amount of work has been done in effecting an organization, and a great number of propositions have been given a hearing. Out of these a limited number have been selected for further investigation, and some important projects are under negotiation. The foundation has been laid for large constructive work, which should do much to create friendly and mutually helpful relations between the United States and other countries.



## Bank of Haiti

The National City Company, affiliated with the National City Bank of New York, has recently acquired all other American interests, and also certain foreign interests, in the Bank of Haiti, and the active direction of the bank will hereafter be from New York. The bank, which is the only bank in Haiti, and has nine branches over the island, was originally a French institution, with an authorized capital of 20,000,000 francs, of which one-quarter was paid up. It was reorganized in 1910, when some American and German capital became interested.

It has done the banking business of the government, and owing to the revolutions, and the conflicting claims of rival authorities, its situation has been a trying one, but its relations with the government are now completely adjusted. The currency of Haiti has been in a sad state of disorder, but under the new arrangement the bank will proceed to take up all government paper in circulation, issuing instead its own notes, which will be kept at a fixed relation to United States money, five "gourdes" to the dollar. The effect of a stable currency will be to greatly encourage investments in the island and facilitate trade.

## Federal Farm Loan Act.

The Federal Farm Loan Act, which was signed by the President on the 17th, is the outcome of agitation extending over a number of years. Presidents Roosevelt and Taft both gave attention to the subject of rural credits, several official commissions have reported upon it, and a number of exhaustive treatises have been written upon it by individual investigators, with the result that there has been a growing sentiment in favor of some action that would improve the facilities for placing farm loans. With differences of opinion as to organization, there has been general approval of the idea that there should be means of mobilizing farm mortgages in the custody of a responsible organization, under public supervision, and of issuing debenture bonds upon the mortgage security. Such bonds might be expected to be a more popular form of investment than individual mortgages, and, if so, the supply of capital available for farm loans would be increased.

### The Organization.

The new organization is modeled after the Federal Reserve system. The country will be divided into twelve districts, each of which will have a Farm Land Bank, with a minimum subscribed capital of \$750,000. Over all of these banks will be the Federal Farm Loan Board, located at Washington, and corresponding in authority to the Federal Reserve Board. It will consist of five members, including the Secretary of the Treasury, who will be a member and chairman ex-officio. The other four members will be appointed by the President, and one of them shall be designated by the President as the Farm Loan Commissioner and be the active executive officer. The members will each have a salary of \$10,000 per year, and not more

than two of the appointees shall be of one party. The full term of office will be eight years.

On July 27, the first step toward the organization of the system was taken by President Wilson who sent the following nomination to the Senate as members of the Board: Hiram B. Quick, of West Virginia; W. S. A. Smith, of Iowa; George W. Norris, of Philadelphia; and Charles E. Lobdell, of Kansas.

The Farm Loan Board will be represented in each district by an official to be known as the Registrar, whose duties will correspond to those of the Federal Reserve Agent in the Federal Reserve system. Transactions between the Land bank and the Board pass through the Registrar.

The capital of each Farm Land Bank will be not less than \$750,000, in shares of \$5 each, and the shares will be offered to the public, but unless a minimum amount is subscribed within thirty days from date it is offered it will become the duty of the Secretary of the Treasury to subscribe for the remainder, and to pay for the same upon call. No other funds in the Treasury not otherwise appropriated. The Board will determine when the capital shall be called in, but this provision affords assurance that it will be forthcoming. No one will have any voting rights, except shares owned by the United States and by the National Farm Loan Associations (see later). Stock owned by the United States will receive no dividends, but is gradually retired at par. Each bank will have a board of directors of nine members, three of whom will be named by the Farm Loan Board and six will be elected by the National Farm Loan Associations. The banks may have branches, with the approval of the Farm Loan Board. No bank shall make loans outside of its district.

The local organizations of the system are known as National Farm Loan Associations, and they are expected to provide the loan applications. Ten or more persons who are the owners, or about to become owners, of land eligible as security for loans under the provisions of the act, who intend to apply for loans, may form a National Farm Loan Association, and no other parties are qualified for membership. Each association must have a board of not less than five directors, and the directors must elect a president, vice-president, secretary, treasurer and a loan committee of three members.

The capital stock of the National Farm Loan Associations will be in shares of \$5 each, and an applicant for a loan must subscribe for an amount of stock equal to 5 per cent of the amount of the loan, to be paid when the loan is granted. When an application for a loan is approved the association will forward it to the bank of the district, and accompany it with a subscription to the stock of the bank, equal in amount to 5 per cent of the amount of the loan. This stock is to be retired when the loan is paid off. The plan is thus to have all of the stock of the land banks eventually held by the local associations, and the stock of the associations held by the farming farmers, so that when the system is fully developed all dividends will go to the latter.



any farm loan association will be required to be organized and become responsible for the payment of the debts taken through it by the land bank of its territory. Every member of an association will be liable, separately, and in proportion to his share holding, not for one another, for all debts, contracts and engagements of the association, to the extent of his share-holdings, in addition to the amount paid in and represented by the shares. That is, there is a double liability, as with shares in national banks. The Associations, however, are to transact no business other than such as is incident to their relations to the land banks.

### Restrictions Upon Loans.

On receipt of loan applications the land bank shall have the land appraised by appraisers of its territory, and no loan shall be made unless it comes within the terms of the act. Reasonable charges, not exceeding the actual costs of appraisal and registration of title, together with legal fees and other charges, may be made against the borrower under regulations by the Farm Loan Board. Loans may be made for the following purposes:

1. To provide for the purchase of land for agricultural

2. To provide for the purchase of equipment, fertilizer and live stock necessary for the proper and reasonable operation of the mortgaged farm; the term "equipment" shall be defined by the Federal Farm Loan Board.

3. To provide buildings and for the improvement of the land; the term "improvement" to be defined by the Federal Farm Loan Board.

4. To liquidate indebtedness of the owner of the land mortgaged, existing at the time of the organization of the national farm loan association established in or for the territory in which the land mortgaged is situated, or incurred subsequently incurred for purposes mentioned in this section.

The important conditions are as follows:

1. No loan shall exceed fifty per centum of the value of the land mortgaged and twenty per centum of the value of the permanent, insured improvements thereon, said value to be determined by appraisal, as provided in section ten of the act.

2. In making said appraisal the value of the land for agricultural purposes shall be the basis of appraisal and the controlling power of said land shall be a principal factor.

3. No loan shall be made to any person who is not at the time, or shortly to become, engaged in the cultivation of the land mortgaged. In case of the sale of the mortgaged land, the Federal land bank may permit said mortgagor to transfer the stock interests of the vendor to be assumed by the purchaser. In case of the death of the mortgagor or his heirs, or his legal representative or representative, the land bank shall have the option, within sixty days of such death, to assume the mortgage and stock interests of the mortgagor.

4. The amount of loans to any one borrower shall in no case exceed a maximum of \$10,000, nor shall any loan be made for less than \$100.

5. Every applicant for a loan under the terms of this Act shall make application on a form to be prescribed for that purpose by the Federal Farm Loan Board, and such application shall state the objects to which the proceeds of said loan are to be applied, and shall afford such other information as may be required.

6. The borrower shall pay simple interest on defaulted loans at the rate of eight per centum per annum, and the mortgagor in his mortgage deed shall undertake to pay when due all taxes, liens, judgments, or assessments that may be lawfully assessed against the land mortgaged. The land bank shall have the option, within sixty days of such death, to assume the mortgage and stock interests of the mortgagor.

and paid by the mortgagee, shall become a part of the mortgage debt and shall bear simple interest at the rate of eight per centum per annum. Every borrower shall undertake to keep insured to the satisfaction of the Federal Farm Loan Board all buildings the value of which was a factor in determining the amount of the loan. Insurance shall be made payable to the mortgagee as its interest may appear at time of loss, and, at the option of the mortgagor and subject to general regulations of the Federal Farm Loan Board, sums so received may be used to pay for reconstruction of the buildings destroyed.

Every such mortgage shall contain an agreement providing for the repayment of the loan on an amortization plan by means of a fixed number of annual or semi-annual installments sufficient to cover, first, a charge on the loan, at a rate not exceeding the interest rate in the last series of farm loan bonds issued by the land bank making the loan; second, a charge for administration and profits at a rate not exceeding one per centum per annum on the unpaid principal, said two rates combined constituting the interest rate on the mortgage; and, third, such amounts to be applied on the principal as will extinguish the debt within an agreed period, not less than five years nor more than forty years: *Provided*, That after five years from the date upon which a loan is made additional payments in sums of \$25 or any multiple thereof for the reduction of the principal, or the payment of the entire principal, may be made on any regular installment date under the rules and regulations of the Federal Farm Loan Board: *And provided further*, That before the first issue of farm loan bonds by any land bank the interest rate on mortgages may be determined in the discretion of said land bank subject to the provisions and limitations of this Act.

No loan on mortgage shall be made under this Act at a rate of interest exceeding six per centum per annum, exclusive of amortization payments.

Every borrower who shall be granted a loan under the provisions of this Act shall enter into an agreement, in form and under conditions to be prescribed by the Federal Farm Loan Board, that if the whole or any portion of his loan shall be expended for purposes other than those specified in his original application, or if the borrower shall be in default in respect to any condition or covenant of the mortgage, the whole of said loan shall, at the option of the mortgagee, become due and payable forthwith: *Provided*, That the borrower may use part of said loan to pay for his stock to the farm loan association, and the land bank holding such mortgage may permit said loan to be used for any purpose specified in subsection fourth of this section.

### Farm Loan Bonds.

The land banks may make application to the Farm Loan Board for permission to issue bonds secured by farm mortgages taken pursuant to the above conditions. An application for bonds must be forwarded through the Registrar, and the bank must deliver to the Registrar mortgages amounting to not less than the sum of the bonds applied for. If the issue is approved the bonds will be delivered through the Registrar to the bank, and the mortgages, transferred by assignment, will be retained in the custody of the Registrar, and kept in a vault approved by the Farm Loan Board.

All farm loan bonds issued by banks of the system will be alike in general design, except that they shall show the bank by which they are issued, and the particular series to which they belong. They shall be issued in series of not less than \$50,000, amount and terms to be fixed by the Farm Loan Board. The rate of interest shall not exceed 5 per cent. per annum. The denominations will be \$25, \$50, \$100, \$500 and \$1000. They shall run for specified maximum and minimum periods, subject to retirement at the option of the land bank at any time after five years from date of issue.



Every land bank is primarily responsible for the bonds issued by it, but in the event of the insolvency of any bank, all other banks will be liable to assessment to make up any deficit. The assessment will be levied by the Farm Loan Board upon the basis of each bank's outstanding bond issues. In other words the issues of each bank are guaranteed by all the other banks.

### Earnings and Dividends.

The earnings of the land banks and local associations must all be made from this paid-up capital plus the one per cent. margin which is allowed between the rate of interest paid upon the bonds and the rate of interest charged the borrowing farmer. Of the net earnings the land banks must set aside 25 per cent. in a reserve fund until said fund equals 20 per cent. of the capital, and after that, and when all impairments are made good, 5 per cent. of the net earnings shall be set aside. After these reservations the whole or any part of the remaining earnings may be used for dividends.

The local associations (whose earnings come from stock in the land banks) are required to set aside 10 per cent. of their net income until the fund reaches 20 per cent. of their capital, and after that, and after any impairment has been made good, two per cent. When this has been done the remainder may be divided in dividends.

### Agents of Federal Land Banks.

After the act has been in effect one year, if it shall appear to the Farm Loan Board that local associations have not been formed, and are not likely to be formed in any locality, the Board may authorize the appointment of agents to negotiate loans in such localities.

Such agent must be a duly incorporated bank or trust company, chartered by the State in which it has its principal office, and the agent must comply with all the conditions provided for the national farm loan associations, i.e., it must subscribe for stock in the land bank to the extent of 5 per cent. of the loans taken by the banks, and it must guarantee all loans which it negotiates.

### Joint Stock Banks.

Provision is made for joint stock land banks with a paid-up capital of not less than \$250,000. subscribers to be subject to a double liability as with national banks. The capital for these must be all provided by private parties. These banks will be subject to the same restrictions as the federal land banks as to the rates of interest charged for loans and paid upon bonds. No other earnings are permitted than such as accrue from their capital and from the one per cent. margin between the rate on mortgages and the rate on bonds. Actual expenses for fees and examinations may be included in the loan.

The joint stock banks will be under the supervision of the Farm Loan Board, and will be authorized to issue bonds based upon mortgages. Such bonds will be in a form prescribed by the Board

but readily distinguishable from the bonds by the federal land banks.

The joint stock banks will not be subject to conditions placed upon the federal land banks for the purposes for which the money must be used, or as to amortization, or the occupation of the land by owner.

### Exemption From Taxation.

Every Federal land bank and every national farm loan association, including the capital and surplus therein and the income derived therefrom, is exempt from federal, state and local taxation, except taxes upon real estate. First mortgages issued to the Federal land banks, or to stock land banks, and farm loan bonds issued under the provisions of this act, shall be deemed to be instrumentalities of the government of the United States, and as such they and the income derived therefrom shall be exempt from federal, State, municipal and local taxation. This declaration would seem to imply that these bonds are practically guaranteed by the government but there is no guaranty.

### Government Depositaries.

There are two provisions in the act authorizing United States government deposits. Section 31 provides that Federal land banks and joint stock banks may be designated by the Secretary of the Treasury as depositaries of public money, to receive receipts from customs, and that they may be employed as financial agents of the government and shall perform such reasonable duties as may be required of them. The Secretary of the Treasury shall require them to give security for the safe keeping of monies and for the faithful performance of their duties as financial agents. No government funds deposited under the provisions of this act shall be invested in mortgage loans or other loans. Apparently this section is to secure the services of these banks in connection with government bonds, if this should be desirable.

Section 32 provides that the Secretary of the Treasury may in his discretion, upon the request of the Farm Loan Board, make deposits for the temporary use of any Federal land bank. Such deposits shall be secured by farm loan bonds or other security satisfactory to the Secretary of the Treasury, and shall bear a rate of interest not exceeding the current rate upon other public deposits. The aggregate of all sums so deposited in the land banks at any one time shall not exceed \$6,000,000. The purpose of this provision is doubtless to enable the Treasury to come to the assistance of the land banks in an emergency, as for example upon the maturity of an issue of bonds.

### Doubtful Features of the System.

That this system, supported as it is by the government, can be carried through to be even a working success, will hardly be doubted. The criticism will be directed first to the elaborate organization, which many regard as more ex-



n necessary; and, second, to certain fea-  
at are deemed unsound in principle and  
ary to the achievement of the end  
Until after a year has elapsed no loans can be  
unless the applications come through the  
neighborhood, associations, membership in  
restricted to intending borrowers. The  
of the measure doubtless believe that the  
needs are so pressing that there will be a  
organize these associations. Time will  
ether the farmers who are eligible under  
s of the act will promptly take steps to

A large proportion of such farmers al-  
ve mortgages outstanding, and must pay  
according to their terms. Moreover, they  
disposed to wait and see what advantages  
gained by shifting their loans to the new

In the older states, where the common  
arm loans is 5 to 6 per cent., it is not clear  
e will be any inducement to early action.

gh the law permits different interest rates  
erent localities, the banks are practically  
e same credit basis by the provision which  
hem all responsible for each other's obli-

There are states in which climatic condi-  
ke crops more uncertain than in other  
and interest rates are higher there, partly on  
unt and partly because the communities are  
l capital is relatively scarce, and the popu-

lation is not so well able to go through a crop fail-  
ure. In these states interest rates are naturally  
higher than in states where crop failure is unknown  
and local capital is in good supply. Under this  
system the latter states will lend their credit to  
the former. Will this work out satisfactorily? It  
will depend upon how carefully loans are made in  
the new and uncertain localities. It is within the  
memory of men when millions of savings belong-  
ing to the Eastern states were lost in loans upon  
western farm lands. This system would have gone  
to smash then. Conditions are better now, and it is  
inconceivable that any portion of the country should  
ever again pass through such an experience as that.  
But the principle of making a land bank in one part  
of the country guarantee the loans made by a land  
bank in another part of the country is question-  
able. This feature of the plan savors too much of  
the guaranty of deposits. It is good to help  
everybody to have the benefit of all the credit to  
which he is entitled, but it is doubtful policy to  
help one with cost or risk to another.

The same comment may be made upon the pro-  
visions putting the land banks and the capital in-  
vested in land bonds upon a different basis from  
other banks and other capital as regards taxation.  
It is not good policy or fair policy to exempt any-  
body from taxation. This exemption is for the  
benefit of owners of farming lands, and no other

# STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS JULY 28, 1916. (In Thousands of Dollars)

OURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chic.	St.Louis	M'np'ls	Kas.City	Dallas	S.Fr'sco	Total
and certif. in													
.....	\$0,242	150,460	10,253	13,716	5,248	5,485	35,220	4,162	6,041	4,078	5,312	10,705	259,931
ement fund.....	13,147	10,824	13,773	12,451	10,823	1,498	9,775	5,684	4,304	13,297	4,265	3,070	102,911
emption fund.....	5	250	50	51	419	441	200	58	30	144	258	12	1,918
old reserve.....	22,394	161,543	24,076	26,218	16,490	7,424	45,195	9,904	10,375	17,519	9,835	13,787	364,760
der notes, sil-													
.....	439	10,160	248	1,133	251	1,125	788	1,177	407	70	787	4	16,589
reserve .....	22,833	171,703	24,324	27,351	16,741	8,540	45,985	11,081	10,782	17,589	10,622	13,791	381,349
option fund—													
nk notes.....	...	...	...	...	...	...	...	...	...	400	50	...	450
ounted—Mem-													
ght in open	2,313	390	637	284	5,884	3,013	3,800	665	1,465	2,185	6,403	555	27,594
.....	12,170	28,489	11,310	7,291	825	1,418	5,784	5,180	2,759	528	...	7,691	83,454
bills on hand.....	14,483	28,879	11,956	7,575	6,709	4,431	9,584	5,845	4,224	2,713	6,403	8,246	111,048*
ts: U. S. bonds	3,082	2,460	3,182	5,650	1,377	1,508	9,753	2,770	3,512	9,647	2,581	3,134	48,656
S. Treas. notes	250	2,282	818	800	684	526	...	570	350	616	520	500	7,925
warrants .....	2,700	7,389	2,410	4,539	336	...	4,368	1,735	1,058	424	...	2,261	27,220
earning assets.....	20,515	41,010	18,366	18,564	9,106	6,465	23,705	10,920	9,144	13,400	9,513	14,141	194,849
arning Notes, Net.	844	11,775	504	267	...	1,228	1,286	1,194	1,446	...	...	1,764	20,308
other F. R.													
et	...	...	...	2,420	1,863	157	8,743	3,267	923	1,093	...	1,389	12,620
resources.....	312	454	94	390	144	1,360	755	570	91	251	939	154	5,514
RESOURCES.....	44,504	224,942	43,288	48,992	27,854	17,759	80,472	27,032	22,386	32,733	21,124	31,239	615,090
LIABILITIES													
aid in.....	4,925	11,596	5,216	5,966	3,358	2,494	6,671	2,792	2,578	3,000	2,689	3,921	55,206
ank deposits .....	3,820	18,300	6,223	2,893	3,355	4,599	3,618	4,533	863	2,653	2,147	3,038	56,542
bank deposits,													
.....	35,011	189,139	31,418	40,133	16,410	10,660	70,183	19,707	18,945	23,910	11,470	24,280	491,266
erve notes, Net	...	...	...	...	4,138	...	...	...	...	1,478	4,506	...	10,122†
er F. R. Bks.,	...	...	...	...	...	...	...	...	...	1,692	...	...	1,692
liabilities.....	643	5,907	373	...	...	...	...	...	...	...	312	...	...
.....	105	...	58	...	93	6	...	...	...	...	...	...	262
LIABILITIES.....	44,504	224,942	43,288	48,992	27,854	17,759	80,472	27,032	22,386	32,733	21,124	31,239	615,090

Total Reserve notes in circulation, 152,590.  
After deduction of items in transit between Federal Reserve Banks, 12,620, the Gold Reserve against Net deposit  
and note liabilities is 66.9%, and the cash reserve is 69.9%. Cash Reserve against net deposit and note liabilities  
after setting aside 40%, Gold Reserve against net liabilities on Federal Reserve Notes in circulation, 70.5%.  
Maturities of bills discounted and loans; within 10 days, 17,308; to 30 days, 19,421; to 60 days, 49,019; other  
maturities, 34,300; Total: 111,048.



class of people has been so generally prosperous in recent years. The average value per acre of all the farming lands in the United States, exclusive of improvements, as reported by the Census Bureau, increased from 1900 to 1910 by 108 per cent. and has gone on increasing since at approximately the same rate. The increase in the cost of living, of which there is general complaint, is chiefly due to the rise in price of farm products. With a rise in the value of their bare lands continuing now over ten years at an average rate of above 10 per cent. per annum, the owners of farms can afford to pay the natural rate for capital when the means are provided to supply it readily. If this act accomplishes what is expected of it in the way of supplying cheap and easy money on land security it will lift land prices still higher, to the advantage of present land-owners. How long will it be before the cry will be heard that it is more difficult than ever for a poor man to acquire land?

The salaries of the members of the Farm Loan Board, and all the expenses of the Board and its staff of appraisers and aids, are to be paid permanently out of the Treasury of the United States. In this respect the system differs from the Federal Reserve system, the expenses of the latter being borne entirely by assessments upon the member banks.

Effects of Special Legislation.

Legislative efforts to favor certain classes or occupations at the expense of the rest of the community seldom accomplish what is calculated of them, because there is usually a reaction of some kind which brings new factors into the situation. If you could change one thing and have everything else remain the same the result might be as expected, but changing one thing affects everything else, so that results may be very different from what are expected. There can be no two opinions as to the desirability of developing agriculture, and of making capital readily available for that purpose. Every facility which a perfected organization can afford should be provided. All classes will be benefited by greater production from the farms. But it does not follow that special privileges should be granted, or that they will yield beneficial results in the long run. The heavy taxes that are now being placed upon large incomes are creating a demand for investments exempt from such levies. It has been evident in the market for municipal bonds, and will be more evident hereafter under the new

schedule of super-taxes. These land bank will be another form of investment free from taxes, and the revenues of the government will suffer accordingly. Of course the advocates of exemption will say that the loss of revenues will be fully made up to the country by the benefits from such investments, but there are benefits to country from all kinds of investments and there is no better way of determining how much should go to agriculture and how much to manufactures and transportation than by allowing to go into them all on equal terms. There is a question as to the constitutionality of the scheme proposed.

There is not only discrimination in favor of banks and bonds as compared with other investments and bonds but as compared with other capital employed in farm loans. The individual who invests money to farmers direct remains subject to taxation, while if he buys these land bank bonds his investment and income from it are free of taxation. This is a use of the taxing power to set up a governmental system. If the government system is really meritorious it should be able to do so without privileges or arbitrary methods.

Discount Rates.

Discount rates of each Federal Reserve Bank in effect July 28, 1916.

	MATURITIES				Agricultural and livestock paper over 90 days.	Trade acceptances
	10 days and less.	over 10 days to 30 days, inclusive.	over 30 to 60 days, inclusive.	over 60 to 90 days, inclusive.		
Boston.....	3	3½	4	4	5	3½
New York.....	3	4	4	4	5	3½
Philadelphia.....	3½	4	4	4	4½	3½
Cleveland.....	3½	4	4½	4½	5	3½
Richmond.....	.....	4	4	4	5	3½
Atlanta.....	.....	4	4	4	5	3½
Atlanta.....	.....	4	4	4	.....	.....
N. w Orleans br	.....	.....	.....	.....	.....	C33-4
Chicago.....	3½	4	4½	4½	5	.....
St. Louis.....	3	4	4	4	5	D 3
Minneapolis.....	.....	4	4	4½	5	3½
Kansas City..	4½	4½	4½	4½	5	4
Dallas.....	.....	4	4	4	4½	3
San Francisco	3	3½	4	4½	5½	3½

- A Rate for commodity paper maturing within 90 days.
- B Rate for bills of exchange in open market operations; 5½-5%; paper bought, Dallas 3-5.
- C Rate for trade acceptances bought in open market, without bank indorsement.
- D A rate of 2 to 4 per cent for bills with or without bank indorsement was authorized on Dec. 21, 1915.
- E Rate for commodity paper maturing within 30 days, 3½ per cent; over 30 to 60 days, 4 per cent; over 60 to 90 days, 4½ per cent; over 90 days, 5 per cent.
- F Rate for trade acceptances to 30 days inclusive: Boston 3½; New York 3½; Philadelphia 3½; Cleveland 3; Richmond 3½; St. Louis 3½; Atlanta New Orleans Branch/ 3½-4; St. Louis D 3; Miami 3½; Kansas City 4; Dallas 3½; San Francisco 3.

THE NATIONAL CITY BANK OF NEW



## **"City Bank Service."**

---

CORRESPONDENTS and depositors find this service unsurpassed. It is the outgrowth of 100 years' business experience and success.

The excellence of the service is attested by the continuous growth of our resources.

The service is available to you and might become invaluable. We should be glad to hear from bankers, merchants and manufacturers who contemplate opening a New York account or who may wish to establish new or additional banking facilities.

None too large; none too small.

---

**THE NATIONAL CITY BANK OF NEW YORK.**





1916

## Economic Conditions Governmental Finance United States Securities

NEW YORK, SEPTEMBER

### General Business Conditions.

**T**HE last days of August were full of events of large importance in the business world. The public had refused to believe that a railway strike was really imminent. That "wolf" cry had been heard so often that it was taken to be only an incident of the periodical wage adjustments between the brotherhoods and the companies. There has been such a development of public sentiment in favor of the settlement of such controversies, particularly where the public is vitally concerned, by conciliation and arbitration that few people believed it possible that railway traffic would be suspended. Nevertheless, in the midst of the greatest period of prosperity the country has ever known, when every mill and factory is working to capacity, and wage-earnings are greater than ever before, the entire industrial organization is threatened with paralysis. The railway system when doing its best can scarcely handle the business of the country, and the suspension of freight traffic will quickly force a suspension of industries, and throw out of employment a great many more men than there are in the railway brotherhoods. The losses which must result to all classes if the threat is carried out are beyond computation.

#### Effect of War Orders.

The hesitating spirit which was noticeable in business circles a few months ago has been changed by the vigorous renewal of war orders, and other evidence that the foreign demand upon our industries is not likely to cease at an early day. The great buying movement early in the year put enough business on the books in most lines to assure activity throughout 1916. Then came a lull, and a disposition to prepare for the end of the war and lower prices, but on August 1st, in the opinion of competent judges, the prospect looked more like two years of war than it did a year ago or at the beginning. The effect was to start a new buying movement in steel and other commodities and to stiffen prices. With no material change in the situation the next few months would see the country's industrial capacity sold out practically to the last quarter of 1917.

The entrance of Rumania into the war is the

most important event since the entrance of Greece and if followed by the entrance of Greece will cause a revision of opinion as to the prospect of peace. Although either side may be able to hold out in defence for a long time, it is not likely that the war will go to the last ditch.

Meanwhile, under the shadow of the war, business continues at a record-breaking pace, every line of industry contending with a shortage and scarcity of materials. Even the railway dispute is fortunately settled. The outlook this fall is for the most serious car shortage and blockade ever known. Upon general principles the business man dreads uncertainty, and so common opinion looks to the end of the war with apprehension. The farther away it is, the better we will be prepared for it, is the prevailing opinion. We are reducing our foreign debt, opening our goods into new markets, developing new industries, paying off debts and accumulating surplus. Surely we are strengthening our position. These are positive gains and outweigh many apprehensions and warnings. For the people, however, cannot forget that the present abnormal conditions prevail the longer the war lasts. We shall get from the natural state of industry and trade to which we must return when the war is over. Wages are still advancing and the process of adjustment to temporary conditions is still going on. It is not comfortable to find that we are working under an unnatural stimulus, and that every month of these conditions will make the following reorganization more difficult.

#### Crops and Prices.

The crops are a disappointment. Wheat has been favored with two extraordinary crops since the war began, and in the natural course of things could hardly hope for more. We are saved from a crop failure, but the yield is sufficient to make prices higher for consumers than they were already high enough to intensify the demands for more wages. The corn crop has been cut down by drought to about 2,500,000 bushels, and this inevitably means dearer hogs. Hogs have been selling on the Chicago market above \$11 per hundred weight, and the great speculative demand for meats is scarcely satisfied. Canadian buyers have been taking hogs



Chicago at the highest prices. The wheat crop is badly hurt, the total yield is not exceeding the requirements of this country for food and seed. Fortunately, there are important stocks in this country carried over from the two big crops of 1914 and 1915. The grown wheat has been selling in the international markets of England above \$2 per bushel, a price that seemed quite possible that that price would be reached in the United States. The market has fallen off heavily on the news of Rumania's entrance into the war, on the theory that the wheat supplies might be open before the end of the year, and Russian and Rumanian wheat would come out.

Reports from the agricultural districts are generally confident that the buying power of the farmer will not be seriously impaired. This is especially true of the spring wheat territory of the Northwest, where crops are now so diversified that injury to wheat is not so serious as it was a few years ago. Fortunately there is an entirely good outlook for corn in this territory. The cotton crop has suffered further deterioration during the past month, drought west of the Mississippi following floods in the East, and preparations are made that it will not be more than 100 bales. Prices have been ranging from 15 cents per pound, the highest figures on the market in many years. High prices for cotton are disturbing the cotton goods trade, but employment is so complete throughout the country that there is not likely to be much curtailment of the demand. The high cost of living has foreshadowed for the coming year a serious matter if there shall be an interference with employment.

### Railway Wage Controversy.

No settlement of the railway controversy has not been reached, and a strike order issued to the membership of the four orders of trainmen, effective at 7 a. m., on September 1. The President has given his endorsement to the principle of the eight-hour day, but has not fully yielded against his judgment to the railway men for an eight-hour day with ten hours of sleep. He has stated that the present situation should never be allowed to occur again, which can only be done if that present demands are unfair, and should not be made or granted.

The public is interested in this controversy, and the rights involved, the public should not be allowed to yield to an arbitrary exercise of power. It is not to be believed that the great body of membership of the railway orders would wish to ignore the public interest. That is a question of good citizenship, and the railway men as a class are as good citizens as any body of men in the country. They have their leaders, who are authorized to represent them, by whose advice they are, to a certain extent, guided, and in whose hands they have placed large powers. Presumably those

powers were intended to be used with great discretion, and we cannot believe that the membership would approve of their use in an extreme manner when a settlement by fair arbitration could be had.

Trainmen must necessarily cover a given "run" over the road. There has been no talk of shortening the "runs," which would involve changing the division points. This would cause great expense to the companies, and, as many of the trainmen own their homes at the present division points, they would probably object for that reason, as well as because they want more pay. The proposal, therefore, is simply that overtime shall begin at eight hours instead of at ten, and be at a twenty-five per cent. higher rate. The rest of the demands the brotherhoods are willing to arbitrate!

The Brotherhood officials have spoken of the unyielding attitude of the railway managers, as though the latter had not shown a conciliatory spirit. If the managers had been holding out for the status quo, or had laid down terms of their own and refused to consider any others, they might be called unyielding. But they have not laid down any terms; they took the full step toward conciliation at once; from the beginning they have offered to arbitrate everything.

The more carefully the situation is considered by the public, the more clearly will it appear that the railway managers have followed the correct course to secure a settlement of the controversy which would be just to all interests concerned. Owing to successive wage increases and other rising costs, with a steadily narrowing margin of net earnings, the position of the railways had become so critical in 1914 that the Inter-State Commerce Commission granted a five per cent. increase in freight rates, effective over the larger part of the mileage of the country. The Commission had refused previous requests, but the point had been reached where even the attorney retained by the Commission to present the negative side of the case, Mr. Brandeis, expressed to the Commission his opinion that the carriers were in need of more revenues. The railways had spent enormous sums of capital to accomplish economies of operation, but these economies were more than offset by the higher wage scales and other costs beyond their control. The Commission was convinced that to enable the railways to raise the new capital continually required for the enlargement of their facilities, they must be allowed to increase their net revenues.

Having been granted the increase of rates, the companies were under obligations to conduct their operations with proper economy, conserve the increase for the purposes for which it was granted, and avoid, if possible, the necessity of going back to the Commission for permission to again raise charges upon the public. The railway authorities would be censurable if they failed to recognize the rights of the public in this situation, particularly in view of the numerous wage advances that have been granted.



### The Public Right to Arbitration.

This question cannot be properly settled by simply granting the Brotherhoods what they ask and then reimbursing the railways for the cost by higher charges upon the public. That may satisfy the railway executives, but it is not just to the public. If the wage increases are to be paid by the public, the wage rates and conditions of service should be considered in comparison with the wages and working conditions of the main body of the public. They should have some just relation to the wages of the other classes of railway employes.

There are natural differences in rates of pay which will be maintained, even though there is perfect liberty in the employment field, but great care should be exercised when such differences are established arbitrarily by the power of small organizations holding strategic positions. The essential principle of democracy is that no class or group shall seize upon a strategic position and exercise its powers with injustice to others. A position of control over the railways gives that power. Industry cannot go on, the people cannot live, without using the railways, and no class or group of men should have unrestrained control over these highways. The owners have been obliged to accept public supervision. The public, through its agencies, determines what charges may be collected, and what service shall be rendered. The investor is completely at the mercy of the public authority, for once a railway is built the capital in it cannot be withdrawn.

It is evident that railway employes are properly subject to the same conditions. They may retire individually, to enter other employment. They may have their brotherhood associations and their representative officials to present their claims, but they should not be privileged to use their organizations either to suddenly stop the traffic of the country, or to compel the payment of wages in excess of what would be determined in fair arbitration proceedings. The right of a few to sacrifice the many has never yet been successfully upheld.

Section 6 of the Clayton Act was deliberately designed to protect labor organizations in a situation like this from the provisions of the Sherman Act, which forbids all combinations in restraint of trade. A combination to make any commodity scarce is unlawful, but a combination to make labor scarce, even though the effect is to make all commodities scarce and dear, is thought to be now exempt from this inhibition, although the provision has never been tested in the courts. Section 6 is given below, and the gist of it is said to be in the first sentence:

"That the labor of a human being is not a commodity or article of commerce. Nothing contained in the anti-trust laws shall be construed to forbid the existence and operation of labor, agricultural, or horticultural organizations, instituted for

the purposes of mutual help, and not having stock or conducted for profit, or to forbid or restrain individual members of such organizations from fully carrying out the legitimate objects thereof; nor shall such organizations or the members thereof be held or construed to be illegal combinations or conspiracies in restraint of trade, under the antitrust laws."

### Present Revenues.

The fact that during the past year earnings have been larger than ever does not alter the principles involved. Earnings are due, in part, to unusual conditions and in part to the large expenditures made in recent years for the improvement of roadways and equipment. In but few instances have these earnings been used for large expenditures; they have gone thus far to relieve pressing needs of the companies and to provide additional facilities for handling traffic. There is no loss to the public from such earnings. They improve the service, keep down the cost of operation, make railway investments safer, and the result that interest charges will be reduced. If it should be found in normal times that increased charges are no longer needed for the prosperity of the roads, the logical thing would be to dispense with them, and relieve the commerce of the country from them. It is a desirable thing to have the costs of transportation increased. It is a reversal of what would seem to be the normal movement when many mechanical economies are being achieved. It is one of the factors of rising costs of transportation that should be avoided if possible. If these charges are necessary in order to pay proper interest as determined by public authority, they should stand, or if new charges are necessary they should be levied, but the fact should be determined by a recognized authority.

### Railway Ownership.

The idea that the railways belong to a few people, who perhaps never invested much in them, seems to persist to a surprising extent, and it probably affects the public attitude in some portions of the country. In the newer portions of the country investments in real estate and real estate mortgages are in chief favor, and the opportunities in business are such that few even the well-to-do are accustomed to railway investments. In the older sections of the country, however, old and well-known railway stocks and bonds are widely distributed among people of moderate means. To a great extent they are owned by women and people who are dependent upon them for a living. The New England roads are largely owned in this manner, but it is also true of other of the most important lines. The Pennsylvania Railroad Company made a classification of its stockholders two years ago, which showed that of the total number of shareholders at that time (88,863) about 80 per cent. held less than 100 shares each.



division into classes was as follows:

shareholders owned ten shares or less, each;  
 shareholders owned 11 to 30 shares, each;  
 shareholders owned 31 to 70 shares, each;  
 shareholders owned 71 to 100 shares, each.

statement does not show the exact amount of stock owned by these 71,355 shareholders, but a proximate estimate may be made by taking the average amount held in each class. The result would be as follows:

	Shares
shareholders held an average of 5 shares each .....	102,635
shareholders held an average of 20 shares each .....	540,290
shareholders held an average of 50 shares each .....	884,165
shareholders held an average of 85 shares each .....	521,135
shareholders held.....	2,048,225

The par value of Pennsylvania stock is \$4.42 and the par value of 2,048,288 shares is \$9,094,402. The total amount of stock outstanding at that time was \$499,198,600. It appears, therefore, that at the beginning of 1913 less than one-fifth of the stock of the Pennsylvania Railroad Company was held by persons whose holdings did not in any case exceed \$5,000 in value.

The company gave a year ago a statement showing that the capitalization of this company was raised between 1898 and 1915 from \$129,305,000 to the \$425,436,565 given above, and for this increase the company received \$425,436,565 in cash, which is \$5,537,965 more than the par value of the

#### Government Ownership.

It has been said as one reason why the railways have yielded everything that the controversy over the agitation for government ownership. It would be true if the railway managers were taking an arbitrary stand for terms of their own, but if the government owned the railways the managers would remain practically as it is now. There are grave objections to government ownership. There is much reason to believe that transportation costs to the public would be higher under government ownership and government management than they are now. The waste, extravagance and loss of efficiency would mean a heavy burden to the country than all the profits of private ownership. But there is such a thing as crippling private management to a degree at which it cannot be had for railroad investments, even there will be no alternative but public ownership and management. When this end is reached the problems of management will remain to be faced. Somebody will still have to determine how much all of the people will pay for a portion of the people who are operating the railways. Will there be any better way of doing it than by referring it to the Interstate Commerce Commission, as the railway managers have proposed?

#### The Eight-Hour Day.

The eight-hour day, as applied to railroad-ing, has particular phases which have been amply discussed elsewhere. As applied to industry generally, it is something about which it is unwise to be dogmatic or arbitrary. It is best dealt with in a practical, experimental way, as the work-day has been shortened in the past, without sweeping changes. It has been found in some industries to the satisfaction of employers, that year in and year out as much work is done by men working eight hours as in ten hours, and where this demonstration is made there is no more controversy. Society is interested in having hours of labor so adjusted that the workers will develop and maintain their highest efficiency and give the highest volume of production, but that would not make the hours the same in all occupations. If the workday is reduced below this point of maximum results the supply of products will be reduced, and if wages are not directly lowered they will buy less, which amounts to the same thing. If railway trainmen are to make shorter runs in the future, more men will be required in that service, and they will have to be withdrawn from farming and other occupations. Production will be curtailed, and no member of the community can escape the effects of it, any more than he can escape the effects of rust upon the wheat crop or of the boll weevil upon cotton.

When it is said that society has made up its mind to the eight-hour day, are we to understand that society has definitely concluded to work less, produce less, consume less and be less ambitious than in the past?

The fact is that there never was a more inopportune time than now for doing anything that will have the effect of reducing production. The withdrawal of millions of men from the ordinary industries for service in the armies, and for war work, has already advanced the prices of all the necessities of life, and put a check upon the normal progress of the world. The only way society can recover these losses and resume its forward march is by increasing the productiveness of its industries, and at this time the United States is almost the only large country where this can be done. Common sense, common patriotism, common sympathy with and loyalty to humanity the world over, calls upon the people of this country to work in this emergency as they never worked before. To insist upon having an easier life at such a time, when it means greater hardships for all the world, would be like taking a holiday when work was needed to keep people from starving. If the facts were seen in all their true relations, the American people would do nothing of the kind.

And that is not all. The industries and trade of this country are involved so closely with the trade and industries of other countries that we



cannot reorganize our industrial system upon a radically different and artificial basis without suffering hereafter. The present exemption from foreign competition is only temporary. We must come back in time to approximately the same relationship to world values as existed before the war. Gold will be the standard of value here and abroad. If we fancy that we can raise all wages and all prices in this country to a relationship with gold which takes no account of that ruling in other countries, we shall be dreaming of a fool's heaven. In the first place, if it was possible to so isolate ourselves we would be losers instead of gainers by it; in the second place such isolation is impossible, and an attempt to maintain such an artificial structure would certainly be to expel gold from this country, as the one thing that could be exported advantageously, and the result would be a paralysis of enterprise and industry. History has shown repeatedly that a state of prosperity which is based upon abnormal conditions, such as exist now in the United States, carries very grave perils. Even though all possible restraint and wisdom be exercised, some degree of reaction is bound to follow. That reaction will be made worse by every departure from the economic principles which govern business affairs the world over.

### **The Labor and Capital Problem.**

Every industrial dispute like the one between the railway companies and brotherhoods is related, of course, to the larger problem of the general distribution of wealth and income, and stimulates discussion of the whole subject. Unfortunately the discussion is usually extremely superficial. A great many people regard each dispute as simply one phase of a continuous struggle which is necessary in order that labor may win from capital a fair share of the results of their joint efforts. There is slight recognition of any general economic law governing the distribution of wealth, or of its silent but inevitable accomplishments. In the railway controversy the wage-earners are set over against the managers or shareholders, as though there was a fixed amount for them to divide and nobody else was concerned. And so there is a common assumption in industrial disputes that the only obstacle to higher wages and shorter hours is the stubborn unwillingness of employers to grant them.

There is, however, an abundance of evidence to show that the lot of the average employer is far from an easy one. The Federal Trade Commission has reported, as the result of an official inquiry, that a majority of the manufacturing establishments of this country are not making even a fair profit. This is the usual situation. The leaders are always making money and raising the efficiency of industry to higher levels, while the tail-enders are always losing and in process of being eliminated. These

differences in management and efficiency always exist. Industry is undergoing constant evolution, but no sudden revolution is possible. It will deny that organization among wage-earners and legislation for the regulation of working conditions have corrected abuses and accomplished good, but the great advance that has taken place in the condition of the masses has been mainly due to the improvements in the methods of production which have been worked out in the competitive struggle. The efficient organization of industry and transportation, the multiplied use of machinery, the growth of capital, the development of banking and credit facilities, these have enormously increased the production of goods and thereby created the demand for labor. These agencies have made possible and inevitable the shorter working hours and higher wage.

Organization is not a new thing among wage-earners. The strike and boycott have been known in China for centuries, and no Chinese are more expert in their use, but the lot of the Chinese laborer has not been raised to the level of the laborer in the United States, for the reason that capital has not been applied to industry in China as it has in this country. The wheel-barrow is still the principal means of transport in China, and factory organization and factory machinery are almost unknown there. The elevation of the Chinese worker waits on these things, and when they are applied the lot of the workman in China will change, as it has changed here.

### **Distribution of Wealth Measured by Consumption Rather Than Ownership.**

The fundamental thing about the relation of wealth to the general welfare is the fact that the final distribution is in goods and services for personal use. The fact that a man makes a good enough with one factory to build another has less significance than the fact that the output of goods is doubled. The ownership of the raw materials is of less significance than their service to the public. People are impressed by statistics showing a large proportion of the wealth of the country in few hands, but this wealth is in productive property, to wit, farms, factories, machinery, railways, etc., in short, in the means of providing goods and service to the public. It would be desirable, no doubt, to have the ownership of these things more widely and equally distributed than it is at present, but after all the value of these things is not in themselves but in the products that flow out from them. All the benefits come out in the flow; the real distribution of serviceable wealth is there.

The chief interest in the ownership of productive property is in having it efficiently handled so that the product will be as large as possible and it may be more efficiently handled in fewer hands than in many. But when it comes



tion of products we see that this cannot  
be confined to a few. Nobody wants to confine  
anybody is struggling for the largest pos-  
sible distribution. The goods must go to the

The public must buy and consume them. The whole business of production comes to a standstill. If the owners of productive property control the market so as to increase their profits, they cannot use the profits in business to increase production, either in their own or some other, and there is no outlet for the increasing supply except by distribution to the public.

### Production and Consumption Must be Equal.

uction and consumption are bound to be equilibrium. The owners of capital may e and contrive in their efforts to make but the more they make and put into s the more goods there will be on the , and unless these goods are distributed nsumed the stream will be dammed up, tion will be choked off, and further ac- tions of capital will be impossible, and sible they would be useless. It is the g purchasing power of the public that employment to new capital.

le fret and protest, and legislative bodies  
gate and resolve, when oil, or paper, or  
or some other commodity, goes up in  
and the producers are known to be mak-  
usual profits, but these profits create a  
or the correction of the shortage, and the  
ion of the shortage is the vital thing. The  
remedy for high-priced capital is more

short, increasing profits, meaning as they are capital seeking investment, are bound to result in an enlargement of the industries, installation of more machinery, the more substitution of new processes for old, and general advance in the position of the entire community, with widely distributed benefits.

line of industry is expanded and de-  
largely by means of the profits made in  
its rate of progress corresponds to them.  
money that has been made in cotton mills  
Southern States has gone back into new  
mills and better ones, and the profits of  
ton industry in New England have gone  
same direction.

quently, capital accumulated in one business finds other fields in which to do development work. A citizen of Atlanta, Georgia, Mr. R. Candler, having made a fortune in the manufacture of a popular drink known as "Coca-Cola," has invested a million dollars within the year in perhaps the best cotton-storage warehouse in the world. It is built of concrete and lined with a sprinkler system, and has secured an insurance rate upon cotton of one-fifth of one per cent. per annum, against an average of one per cent. upon cotton in miscellaneous storage of 3½ per cent.; it is equipped with a trolley



have come from the surplus income of employers who ought in fairness to pay higher wages than they do; but wherever the money came from it is now placed where it renders a widespread service to the public. And when the interest upon this investment is turned back into a similar improvement on another railroad, or into some other constructive and productive work, and as we follow down and find all of the increment going into public works, it is pertinent to ask how the private owners derive any benefit from these investments. The answer, of course, is that they derive exclusive benefits only from what they eat and wear or otherwise withdraw from public use and devote to themselves or their dependents. All the rest of their income goes to public uses as effectively as though it was donated to the public treasury. What better could the treasury do with it?

The public grievance against great private incomes narrows down to undue and wasteful personal expenditures, which, although offensive in instances, are a very small factor in the total.

Census Figures.

We have heretofore found occasion to call attention to the remarkable growth of capital as a factor in the industries of this country, but the figures are worth repeating at every opportunity. In the three five-year periods 1899-1904, 1904-1909, 1909-1914 the principal figures for our manufactures, as collected by the census, showed increases over those for the preceding period as follows:

	Percentage of increase		
	1904 over 1899	1909 over 1904	1914 over 1909
Capital employed .....	41.2	45.4	23.7
Primary horse-power.....	33.6	38.5	20.7
Wage-earners, average number	16.0	21.0	6.4
Total wage payments.....	30.0	31.0	19.0
Value of products.....	29.7	39.7	17.3
Value added by manufacture..	30.3	35.5	15.8

This table will repay careful study. All percentages of increase were noticeably less in the last period, showing a smaller expansion of industry, and indicating that profits were lower. The tendency, however, was the same throughout all periods. The number of wage-earners shows a lower percentage of increase than either amount of capital or amount of wage-payments or value added by manufacture. (The latter term is used by the census bureau to indicate value of product after deducting cost of constituent materials.) The value of product added in manufacture increases by a percentage lower than the increase of capital or wage-payments, but higher than the increase in number of wage-earners.

These figures support the judgment long pronounced by economists that labor, by the inevitable workings of natural law, gets a constantly increasing share of a constantly increasing product. The wage-earners not only gain in wages but in having their manufacturing done for them

at lower cost through the increasing use of capital. If their position does not improve lately the explanation must be found in the cost of materials and other things outside of the field in which labor and capital are the factors. Labor has unmistakably gained, but labor and capital divide the proceeds of joint efforts, but has lost some of these gains to the producers of grain, meats and other non-manufactured products.

In 1899 the amount of capital employed in manufacturing was \$1,770 to each person employed, in 1904 it was \$2,117, in 1909 it was \$2,488 and in 1914 it was \$2,848.

If all the effects of the increase in capital were on the side of prices, a greater reduction would be shown, but in part the influence is upon wages. Every increase in the supply of capital makes an additional demand for labor, and with capital increasing faster than population, as it does, there is bound to be an upward tendency in wages. Moreover, the growth of production give better living conditions, better educational advantages, with the result that wage-earners are not only more efficient but more independent and capable in making bargains. Unless there are gains in the purchasing power of the public, either through lower prices or higher wages, a growth of production greater than the growth of population cannot be absorbed.

The Law of Progress.

It does not follow that an individual or a class of wage-earners may not be interested in increasing his or their position, justly interested, in increasing his or their position at the expense of employers' profits. The tendency may be to increase present consumption at the expense of curtailing the accretions to the investment fund, but it may cause the contributions to the investment fund to reach it through other channels. A fundamental truth is that all surplus above present living expenses, whoever owns it, goes into the investment fund, the growth of which finances the progress of society. Obviously more there is saved from current consumption and put into productive equipment the more rapid the progress of society will be, and the more it tends naturally to accumulate in the hands of the people best able to use it in the creation of new capital. This is only repeating by the operation of economic law what millions of people have intuitively, when they deny themselves luxuries, and when their children may start life under more favorable circumstances. It is evident that if this view is accepted much of the bitterness of industrial disputes, which arises largely from a feeling of class interest and class injustice, would disappear, and with its disappearance would come more harmonious relationships, greater efficiency and more rapid progress.

The Views of Economists.

The foregoing views are not new. They have been held in substance by the leading economists.



ities, but they are taught so ineffectively in schools that the truths embodied are practically without influence in every day life. They are on the surface, however, in nearly every part of fundamental conditions. A comprehensive work upon the "Wealth and Income of the People of the United States, by Dr. Willford D. King," of the University of Wisconsin, has recently appeared in "The Citizens' Library of Economics, Politics and Sociology," edited by Richard T. Ely, head of the Department of Political Economy of the same University. We have the liberty of making a few extracts which are pertinent to this discussion:

For all reasonable allowances have been made, it remains, practically, that, beginning with 1850, there has been an increase in the national dividend so enormous that it cannot logically be ascribed to anything but the tremendous advance in productive power due to the revolutionary improvements in industry which have characterized the last century. It seems improbable that any other nation has ever experienced such sweeping increases in the average income of the inhabitants. It is most necessarily, been accompanied by a great increase in the standard of living."

\* \* \* \* \*

ate, we have had a period of 'muck-raking' in which all things that exist have been pictured as bad and growing worse. The misery of life, the difficulty of making both ends meet, has been emphasized. True, it is just as difficult to find the articles required by our standard of living as ever was. But, our standard of living has become more expensive. Increases in quality cost more than increases in quantity. Our wants increase and probably always will increase with the ability to satisfy them so that there is never any winning the race with our standard of comfort. Much a race is just like chasing one's shadow. Needless, to the present author, a larger per capita supply of economic goods appears to be a distinct benefit to any nation and the United States has been greatly favored in this line during the sixty years."

\* \* \* \* \*

period 1850-1900 saw that come to pass in the United States which the English economists of the latter nineteenth century deemed impossible—improvement of the workingman's economic well-being to the extent that he was lifted out of the conformation formerly thought inseparable from a workingman. He tasted the cup of learning; he experienced pleasures of leisure and entertainment; and he so limited the size of his family as to enable his children to be able to secure these advantages. Larger income meant more learning naturally brought more power and more respect. The army of labor began to ally to be courted or an enemy to be

For a careful discussion of the division of national income among all classes, Dr. King reaches the conclusion that if all rent, interest and profits were added to wages the sum of the would not be increased by more than one-third. He says:

It would seem improbable that, with our present productive power, any feasible system of taxation could increase the average wage earner's income in purchasing power by more than one-third and this is an extreme rather than a moderate estimate. While such a change might or might not be desirable, it would, at least, work no startling

revolution in the condition of the employees of the United States. The grim fact remains that the quantity of goods turned out absolutely limits the income of labor and that no reform will bring universal prosperity which is not based fundamentally upon increasing the national income. After all, the Classical Economists were right in emphasizing the side of production in contradistinction to that of distribution. Nature refuses to yield her bounty except in return for effort expended. Demands for higher wages have never yet unlocked her store-houses."

Dr. King might have added that, saying nothing about the disorganization of industry which would result from confiscating all rent, interest and profits, and assuming that production would continue to be as great after all the incentives to leadership were removed, there would certainly be a check upon capital accumulations, with the result that additions to the productive equipment would be correspondingly reduced. Society would use up more of its current earnings in current consumption, and industrial progress would be retarded accordingly.

#### A Country Banker's View.

We are in receipt of a letter from a country bank president who is also a farmer, residing in the town of Palmyra, Wisconsin, which contains so much practical wisdom that we give it nearly in full. It comes from one who is close to the soil, the source from which the most necessary kinds of wealth must come, and reads as follows:

"I wish I had a means of being heard by every laboring man from Coast to Coast. I would say to him: 'If there ever was a time when you laboring men should let well enough alone, it is NOW, and this is WHY.'

"Crops are of a light average. An excessively wet and cold late Spring and early part of Summer was a bad handicap. An unusually hot and dry mid-Summer blighted the hopes of promising early sowed and planted grain and ruined late sowed stuff on heavy and low land. Fruits and berries are scarce and vegetables and poultry are almost rare. Milk production is off about 30 per cent. and stocks of condensed and powdered milk are unusually low.

"Owing to high wages and short hours, labor for the farms has been scarce. Weeds have grown undisturbed, shortening the crops this year and filled the land with foul seed to be a curse for a generation. At a time when many a farmer who has worked for fourteen and sixteen hours a day will barely live and breathe even, why should railroad or other employees, who are getting more wages and full employment, strike for more? Especially when they are getting as much gold or its equivalent for a week's work as one of the poor fellows in the trenches laid by in a year or even more; and our laboring people should know that it is by the gold that the poor fellows referred to have spent years to lay by, that they (our laboring people) are prospering now.

\* \* \* \* \*

"It is, perhaps, hard for the average laborer to comprehend how a weedy potato field in Wisconsin should shorten the allowance on his table, but it has its effect, just as sure as dipping a pail of water from Lake Michigan into the drainage canal, makes one pail less to go over Niagara, and if there is nobody to wield a hoe, the weeds will grow.

"Personally, I fear results of shortening hours more than the raising of wages. The inflation by the



Federal Reserve system, for one thing, and still more the inflow of gold as a basis of credit expansion, may compensate for increased wages.

"*BUT* our manner of living—that is, the degree to which all may be indulged in the good things or necessities of life, depends entirely on how much or how many of these things there are to go around, and it is a foregone conclusion that if hours of labor are reduced, less is produced, and somebody must go without something. I believe that if every labor leader and every politician would comprehend the foregoing, which I believe to be *fact*, and set it before the masses, the average of intelligence is high enough so it would have a marked effect."

C. CARLIN,

President, Bank of Palmyra.

## Foreign Trade and Exchange.

The cross currents in our international relations created by the merchandise trade balance, the movement of securities and the foreign loans in this market, occasion a great amount of calculation as to the net change in our position. A good many people arrive rather hastily at the conclusion that we have about paid off our foreign indebtedness and become a creditor nation, but that announcement is premature. The favorable balance of trade on merchandise account for the year ended June 30th last was \$2,135,775,355, and for the two years ended that day, \$3,230,194,955. To this should be added \$47,469,112, the value of our net exports of silver, which are still reported separately. The total, excluding gold, for the two years, was therefore, \$3,277,664,067. Foreign deposits in American banks are much larger than before the war, perhaps \$500,000,000 greater, and these credits should be added to the above balance to reach the total sum for which other countries have had to make settlement with the United States. The aggregate would be \$3,777,664,067. How has this been met?

The net importations of gold in the two years were \$403,761,219, reducing the above balance to \$3,373,902,848. From this must be deducted the invisible offsets representing interest, dividends, tourists' expenses, shipping and insurance charges, gifts and other remittances not covered by the shipment of goods.

The usually accepted estimate of the total investments of foreigners in the United States before the outbreak of the first Balkan war in 1912 was \$6,000,000,000. The return flow began about that time, and the current has been in this direction ever since. The most definite information about the foreign holdings of our securities and the amount returned to this country since the war began was gathered by Mr. L. F. Loree, President of the Delaware & Hudson Railroad Company, who addressed an inquiry to all railway companies having more than 100 miles of road. The returns covered the six months from February 1, 1915, to July 31, 1915, during which time the foreign holdings of stocks, bonds and notes issued by these companies were reduced from \$2,-

704,402,963 to \$2,223,570,828, par value, the sum of \$480,892,135, par value. The net value of the remaining holdings on July 31, 1915, was calculated at \$1,751,437,912 or 17.7 per cent below par. If those returned are reckoned at the same rate they would represent a little less than \$400,000,000. This did not include sales of securities held in the names of American banks and brokers for foreign account.

Persons well informed upon British investments have been of the opinion that other than securities in America, including industrial investments, public utilities, municipal bonds, real estate, mortgages, mines, etc., would equal the investments in railways. If so, the aggregate of all foreign investments here would be fully \$1,000,000,000 at the outbreak of the war. If these investments have not been liquidated to any extent like the same extent as railways, for the most part they could not be disposed of so readily.

Although the market was depressed at the time Mr. Loree's estimate was made, it is evident that regular payments were not being made on the holdings. Payments for the second year would be less than for the first, on account of securities returned, and there is an offset in the second year of perhaps \$40,000,000 for interest upon loans in this market since the war began. Allowing for these and for some return on American investments in other countries, the balance upon interest and dividend payments abroad may be conservatively estimated at \$100,000,000. It has always been calculated that a large portion of this class of income was invested in this country, and we may say that this was done to the extent of \$100,000,000, leaving \$200,000,000 to count against the trade balance.

The balance against us on shipping and insurance charges would hardly be less than \$100,000,000 in the two years.

Remittances from this country for gifts and savings have been large in recent years. There is no definite way of distinguishing these remittances from others, but it is usually considered that most of the postal money orders drawn on European countries are for personal payments of this character. In the fiscal year 1900, the aggregate was \$16,749,018, and from this they steadily until in the fiscal year 1914 they amounted to \$91,285,920. This does not include those sent to Canada, Mexico and the West Indies, which in 1914 amounted to about \$10,000,000. In the fiscal year 1915 the money orders drawn on European countries dropped to \$51,662,120. The figures for 1916 are not available, but are understood to be considerably nearer normal than in 1915. Of the above total in 1915, \$15,748,613 was remitted to Italy and \$11,726,664 to Great Britain. Bankers who deal with the wage-earning class are of the opinion that this class of remittances to Italy through banks exceed those by the United States Office and that this is generally true. It is



that these remittances in the two years have totaled \$200,000,000.

Christians' expenditures may be dropped from calculation on the assumption that the expenditures of foreigners here are now equalling expenditures of Americans abroad.

These running counter charges against our balance, aggregate \$500,000,000 and deducted from \$3,373,902,848 would leave about \$2,873,902,848 to be covered by loans and by the securities and interests of all kinds in the United States since the war began. The net total of all foreign loans to July 1, 1916, was \$1,100,000,000.

This calculation would indicate that the total sales of securities and interests in this country for foreign account in the period named, from \$1,750,000,000 to \$1,800,000,000.

These figures for the most part are only estimates and there are differences of opinion among experts upon every item.

### Money Market.

The money market has continued in a state of equilibrium throughout the past month. The surpluses of the New York banks are higher than have been since early in April last, now \$100,000,000. Loans are lower than they were without the spring months, and cash reserves, as a result of gold importations, are higher than last winter. Money rates have been workably easier and good commercial paper is plentiful. Reports from the interior indicate that there will be only a light demand on New York City. Money over the year is loaned at 4 to 5 per cent. The foreign government loans, mainly by banks, to Great Britain, France and Russia, aggregating \$400,000,000 have had a noticeable effect upon the supply of money. The thing in sight that might make money tight is the railway strike, which would interfere with deliveries of goods and put a stop to the flow of payments. The industries would consequently be obliged to stop for want of materials and supplies, and would have to borrow while accumulating product.

### Bond and Stock Market in August.

The net change in the general level of bond prices during August has been slight. The average price of 40 listed bonds, as compiled by the *Wall Street Journal*, was 93.88 on August 1, 93.74 on August 1, 93.97 on August 1, and 89.96 on August 26, 1915. Activity in government bonds, on account of heavy trading in Anglo-French 5s and American Foreign 5s (French Loan) has been pronounced, and has represented 35% of the total volume in the same period in 1915, government bond transactions comprised only about 1 2/3% of the total transactions on the Exchange.

In favor of which the external loans of gov-

ernments having good credit enjoy is indicated by this increased business in foreign government bonds, as our investors become more and more familiar with such issues. On account of a rise in New York exchange on Petrograd, the Imperial Russian Government 3-year 6 1/2% Credit is attracting special attention. American investors are beginning to appreciate the fact that if our exports are to continue at anything like the present high level, payments by the European Powers must be made in part at least by means of credit obligations. Imports of goods and gold and resale of securities will not suffice. Banks have liberally extended their facilities in the form of bank credits and acceptances, but it is still more necessary that individual investors carefully study the unusual opportunities for high yield and good security furnished by many of these external foreign loans which are being offered in the United States. The payment of these short term obligations in this country within the next few years is going to give us a power to check gold exports that will be extremely useful.

The \$250,000,000 British Government 2-year 5% notes dated Sept. 1, 1916, offered this month at 99, is the second largest foreign loan ever brought out in the United States. The notes, which were quickly taken, especially by institutions, are redeemable on 30 days' notice at 101 prior to September 1, 1917, and at 100 1/2 thereafter. Unlike the recent French loan, they are a direct obligation of the Government, and in addition are secured by 120 per cent. in collateral. The collateral consists of \$100,000,000 American corporation securities, \$100,000,000 Dominion of Canada and Canadian Pacific issues, and \$100,000,000 in obligations of various neutral countries. Provision is made for the maintenance of the market value of the collateral pledged at 20% above the amount of notes outstanding. The Notes are payable in New York, in U. S. gold, and are free from all British taxes. It is estimated that foreign governments and foreign corporations have borrowed in this market, including bank credits, about \$1,700,000,000 since the outbreak of the war.

### Bill of Lading Legislation.

At last, after years of effort on the part of the American Bankers' Association and Chambers of Commerce, Congress has passed the bill-of-lading bill, known as the Pomerene bill, which makes bills-of-lading as safe as warehouse receipts as evidence of the possession of and responsibility for goods.

Section 22 of the bill adopts a rule, long in force in our leading commercial states, which rule makes the carrier liable to a bona fide consignee or banker who pays or loans money upon a bill of lading issued by an authorized agent,



# STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS AUGUST 25, 1916.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco
Gold coin and certifs. Settlement fund. Cr. Balances	9,303	147,557	10,833	14,359	5,055	5,855	35,674	5,425	6,276	4,210	5,366	9,886
Gold Settlement Fund.....	16,466	11,077	17,251	9,218	11,637	1,058	16,579	4,343	3,431	10,446	4,424	5,021
Gold Redemption Fund ..	5	250	50	20	451	125	200	19	30	134	343	10
Total gold reserves.....	25,774	158,884	28,134	23,597	17,143	7,038	52,453	9,787	9,737	14,790	10,133	14,917
Legal tender notes, Silver certifs and Sub. coin.....	208	5,625	762	1,101	163	1,203	903	1,144	426	61	617	52
Total Reserves.....	25,982	164,509	28,896	24,698	17,306	8,241	53,356	10,931	10,163	14,851	10,750	14,969
5% redemption fund—F. R. bank notes .....										400	100	
Bills discounted, Members Commercial paper .....	869	664	290	274	6,037	3,660	2,875	883	1,855	1,918	7,188	519
Bill bought in open market	10,390	29,422	9,969	7,003	725	1,751	5,683	5,586	3,109	1,005	549	6,954
Total bills on hand.....	11,259	30,086	10,259	7,277	6,762	5,411	8,558	6,469	4,964	2,923	7,737	7,473
Investment U. S. Bonds ...	2,992	2,220	2,890	5,579	1,129	1,508	9,393	2,724	3,399	9,647	2,681	2,634
One-year U.S. Treas. notes	250	2,282	818	760	684	526		570	350	616	529	820
Municipal Warrants.....	2,890	7,276	2,550	4,755	336	166	4,291	1,822	1,044	399		2,334
Total Earning Assets	17,391	41,864	16,517	18,371	8,911	7,611	22,242	11,585	9,757	13,585	10,947	13,261
Federal Reserve Notes, net Due from other F. R. Banks net.....	910	14,015	384	426			1,300	999	1,704			1,484
All other resources.....	410	3,287		3,194	196	1,278	7,815	3,115	568	1,789	320	1,981
	118	362	123	390	167	518	411	544	161	196	383	228
TOTAL RESOURCES.....	44,811	224,037	45,920	47,079	26,580	17,648	85,124	27,174	22,293	30,821	22,500	31,923
LIABILITIES												
Capital Paid in.....	5,023	11,596	5,221	5,995	3,363	2,490	6,675	2,791	2,589	3,007	2,691	3,922
Government Deposits.....	3,246	12,877	6,615	2,064	3,662	3,071	5,731	4,446	962	1,342	2,227	3,826
Reserve Deposits, net.....	36,429	199,564	31,719	39,020	14,865	10,708	72,718	19,937	18,712	23,504	11,070	24,175
Federal Reserve Notes-net Federal Reserve Bank Notes in circulation.....					4,577	1,366				1,278	6,512	
Due to other F. R. Banks net.....			2,269							1,690		
All other Liabilities.....	113		66		113	13						
TOTAL LIABILITIES.....	44,811	224,037	45,920	47,079	26,580	17,648	85,124	27,174	22,293	30,821	22,500	31,923

- (a) Total Reserve notes in circulation, 156,345.  
 (b) After deduction of items in transit between Federal Reserve Banks, 21,654, the Gold Reserve against Net deposit and note is 68.4% and the cash reserve is 70.6%. Cash Reserve against net deposit and note liabilities after setting aside 40% Gold against net liabilities on Federal Reserve Notes in circulation, 71.4%.  
 (c) Maturities of bills discounted and loans: within 10 days, 12,955; to 30 days, 27,507; to 60 days, 42,781; other maturities, 25,109,178.

certifying the receipt of goods, although no goods in fact have been received. It rightly applies the rule which makes the principal responsible for the act of his authorized agent performed within the scope of his authority to one who relies thereon to his injury. This same principle applies to banks and other corporations which issue negotiable documents and there is equal necessity that it should apply to carriers; otherwise, the bill of lading fails in its function as an instrument of credit.

Section 37 contains another important provision. That section gives full negotiability to bills of lading and thereby affords greater protection to the discounting banker and to the purchaser of the goods. Where they acquire a bill of lading in good faith, that bill is made enforceable and is not subject to some unknown defect in the title of a prior holder.

The Pomerene bill makes criminally liable the person who forges a bill of lading and the agent who issues a bill that does not represent goods. This is a much needed reform. No punishment whatever is now provided for such criminals under the Federal law. At this time when we are making special efforts to increase our international trade this legislation is of great importance.

## Discount Rates.

Discount rates of each Federal Reserve Bank in effect August 30, 1916.

	MATURITIES				Agricultural and live-stock paper over 90 days.	Trade acceptances.	
	10 days and less.	over 10 days to 30 days, inclusive.	over 30 days to 60 days, inclusive.	over 60 days to 90 days, inclusive.		To 60 days, inclusive.	Over 60 to 90 days.
Boston....	3	3½	4	4	5	3½	3½
New York	3	4	4	4	5	3½	3½
Philadelphia	3½	4	4	4	4½	3½	3½
Cleveland	3½	4	4½	4½	5	3½	4
Richmond	.....	4	4	4	4½	3½	3½
Atlanta....	.....	4	4	4	5	3½	3½
Atlanta New Orleans br.	.....	.....	.....	.....	.....	C3½-4	C3½-4
Chicago....	3½	4	4½	4½	5	D 3	D 3½
St. Louis..	3	4	4	4	5	3½	3½
Minn'polis	.....	4	4	4½	5	4	4
Kans. City	4½	4½	4½	4½	5	3½	3½
Dallas....	.....	4	4	4	4½	3	3
SanFr'sco	3	3½	4	4½	5½	3	3½

- A Rate for commodity paper maturing within 90 days.  
 B Rate for bills of exchange in open market operations; 3½—5½; paper bought, Dallas 3—5.  
 C Rate for trade acceptances bought in open market, with member bank indorsement.  
 D A rate of 2 to 4 per cent for bills with or without member indorsement was authorized on Dec. 21, 1915.  
 E Rate for commodity paper maturing within 30 days, 3½ per cent; over 30 to 60 days, 4 per cent; over 60 to 90 days, 4½ per cent; over 90 days, 5 per cent.  
 F Rate for trade acceptances to 30 days inclusive: Boston 3½; New York 3½; Philadelphia 3½; Cleveland 3; Richmond 3½; Atlanta 3½; Atlanta (New Orleans Branch) 3½-4; St. Louis 3½; Minneapolis 3½; Kansas City 4; Dallas 3½; San Francisco 3½.



ta Federal Reserve Bank.

last number of this Bulletin stated that four Federal Reserve banks had begun dividend payments to wit: Richmond, Dallas, Kansas City and St. Louis. We regret very much to have inadvertently overlooked the Atlanta bank, which on June

30th last declared a full six per cent. dividend up to December 31, 1915. We hasten to make the correction.

Net earnings for the twelve Federal Reserve banks for the six months ending June 30, 1916, were \$804,509.80, or at the rate of 2.9 per cent. on the paid in capital at the close of the period.

**THE NATIONAL CITY BANK OF NEW YORK.**

## **"City Bank Service."**

---

The General Bond Department of  
The National City Bank of New York  
has been taken over by

**THE NATIONAL CITY COMPANY**

That company has also acquired  
the bond business of

**N. W. HALSEY & COMPANY**

The National City Company is closely affiliated with us, occupies offices in our building, and will render the quality of investment service which has been maintained by the Bank. We solicit for them the same consideration afforded us by our valued clients.

---

**THE NATIONAL CITY BANK OF NEW YORK**





1916

## Economic Conditions Governmental Finance United States Securities

### General Business Conditions.

**T**HE fall of the year is naturally the season of greatest trade activity. The crops go on the market at this time and cause a wide distribution of funds, the preparations for winter mean a heavy retail trade, the transportation lines are usually at their maximum traffic and nearly all industries are normally busy. Last year the volume of business crept slowly upward through the first eight months and rounded into full activity in the fall. Since then there has been no let up, and about the only difference apparent as we come again into the fall season is that prices are rising. When all agencies of production are driven to capacity an increasing demand works itself off in this manner. Notwithstanding the fact that business was good in September last year, bank clearings in the month just closed were about 40 per cent. in volume above that time. Railway traffic is up to the capacity of the lines, surpassing all records, and complaints of car shortage are heard from many quarters.

There is more confidence in the future than has been felt at any time in the last two years. This does not mean that there are no apprehensions of an industrial slump after the war, but that with the profits of the last year applied to indebtedness or added to resources, the position of the industries is inherently stronger. Moreover, there is a feeling that business is accumulating which will come forward when war orders are out of the way. In nearly all lines there is difficulty in getting orders filled. Foreign trade in ordinary merchandise in all parts of the world, is growing, because there is no other place to get the goods and this fact will prevent any accumulation of stocks until some time after the war.

#### The Metal Industries.

Enormous purchases of copper by foreign governments have strengthened the market position of that metal, and given assurance of a continuance of prosperity in the copper mining districts far into next year. Silver is also in a strong position, owing to the suspension of production in Mexico and the demands of Euro-

pean countries for coinage purposes. Considerable silver has gone from China to India; this only means that later on the Chinese will have to be replenished. The price is likely to yield much until Mexican supplies come forward again.

The iron and steel situation is stronger ever. Prices are higher in nearly all lines, goes without saying that no consumption is demanded which can be postponed is contesting supplies on the present level. The rails have finally come into the market for car and other equipment which is imperatively demanded. The requirements of the ship-building industry are very heavy, and likely to continue for several years to come. General construction, and the work involved in new enterprises is light, but there is a large amount of business for the enlargement of industries that are pushed to capacity.

#### The Crops.

The crop estimates have gained nothing in the past month, but with the possible exception of corn show lower figures. The yield of the United States is not more than enough for bread and seed, but there is a carryover from last year which is calculated to allow 150,000,000 bushels for export. The entrance of Greece into the war revives the possibility that the Dardanelles will be opened, allowing Russian wheat to come out, and which would have an important influence on world prices. The Argentine crop is now making, coming to harvest in December yet it is doing well. The Canadian crop is officially estimated at 168,611,000 bushels against 376,306,000 last year. The world's supply is short.

The cotton crop has suffered further deterioration in the past month, and is projected under 13,000,000 bales. This is the second successive crop to be less than consumption requirements, and prices are around 16 cents a pound, the highest level known in a normal market. The boll weevil and wet weather combined to play havoc with the crop east of the Mississippi river. Advices from Manch-



that the cotton goods trade there is very disturbed over the outlook as present for cotton are thought to make prices for goods that will be prohibitory to much British foreign trade.

cotton goods industry in this country is prosperous, notwithstanding the high price raw material. There is a scarcity of labor here, which makes it impossible to run to capacity. Jobbers continue to report a active trade for this period of the year. The rs who were cautious in their early buying, pound trade good, and have been reordering. Price advances have become a regular t, but so far they do not seem to affect the d. Not only are prices high because raw is high, but because the competition for makes an unusual margin for the manufac- The woolen goods trade is in much the situation.

### High Cost of Living.

most unsatisfactory feature of the general on is the general rise in the cost of living, is unquestionably bearing heavily upon the of small incomes. There is, perhaps, little t to them in reflecting that the conditions pporary, as they unquestionably are. They direct result of the withdrawal of so many om industry and the enormous consump- mands of the war. These prices, however, ing a stimulus to industry which will result rmanent increase in the supply of all kinds ds. In Cuba, for instance, there is great y clearing new lands and bringing them in- ar production. The same is true in all producing countries, and it requires no t to tell that when the beet sugars of Eu- ome again into the market, prices will be an ever before known. The work that is done for agriculture in this country at resent time gives promise of important re- before long. The farmers are increasing erds, sheep raising is feeling the stimulus usual profits, and there are many signs indicate that the consumer will have an later if he can hold out until the time

### y and Exchange.

continued and unprecedented movement d into this country has put an end to any that bankers may have entertained of rates for money during the fall season. the early part of May the receipts of gold New York Assay Office and Philadel- nint from foreign sources has amounted r \$300,000,000, and the customs returns that the net importations of gold into unry for the first eight months of the ere \$410,000,000. A considerable portion s gold has gone to the country through federal Reserve system, and it is not an-

ticipated that further requirements this fall will be sufficient to noticeably disturb the New York situation. The tone during the last week has been slightly easier.

The condition of the New York Clearing House banks shows comparatively small changes in the principal items since the first of the year. We give the figures for loans and discounts, net demand deposits, cash and gold holdings in vault on December 31, 1915, and September 23, 1916:

### Clearing House Banks, New York.

	Dec. 31, 1915	Sept. 23, 1916
Net demand deposits....	\$3,314,741,000	\$3,270,824,000
Loans and discounts.....	3,246,356,000	3,307,093,000
Cash in vault.....	519,579,000	450,057,000
Gold " ".....	335,397,000	306,802,000

In view of the activity of trade and of the stock market, the steady absorption of American securities which has been going on, and the three great foreign loans, aggregating \$400,-000,000 since the first of July, the small increase of loans in nine months must be regarded as very satisfactory. There is no sign of wild inflation in those figures.

It is a noteworthy fact, however, that notwithstanding the heavy importations of gold at New York, the banks of this city hold less gold and less cash than at the beginning of this year, and the same is true of the Federal Reserve Bank of New York and the reserve agent for this bank. The gold importations have all been distributed to the interior.

Surprise is expressed over the continuation of the British shipments, notwithstanding the recent creation of \$400,000,000 of new credit for the use of the governments of Great Britain, France and Russia. The best explanation is found in the new records that are being made by our exports.

### Foreign Trade.

The following table gives the foreign trade figures for the twelve months ended with August:

1916	Exports	Imports	Excess of Exports
August .....	\$199,000,000	\$199,247,391	\$310,752,609
July .....	445,472,000	182,722,938	262,749,062
June .....	464,784,318	245,795,438	218,988,880
May .....	474,881,255	229,188,957	245,692,298
April .....	399,861,157	217,705,397	182,155,760
March .....	411,476,638	213,589,785	197,886,853
February .....	402,991,118	193,935,117	209,056,001
January .....	330,784,847	184,362,117	146,522,730
1915			
December .....	359,306,492	171,832,505	187,473,987
November .....	327,678,802	155,496,675	172,182,127
October .....	328,030,281	149,172,729	178,857,552
September .....	300,676,822	151,236,026	149,440,796

It will be seen that the balances of the last four months greatly surpass those of any other four months of the period.



### Foreign Sales of American Securities.

We gave last month a calculation which indicated that the amount of American securities returned to this country and of foreign interests in this country liquidated in the two years ended June 30, 1916, was from \$1,750,000,000 to \$1,800,000,000. Reference was made therein to Mr. Loree's estimate of the amount of railway securities returned in the six months from January 31, 1915, to July 31, 1915. During the past month Mr. Loree has given out new figures, bringing his calculation down to July 31, 1916. He finds that the holdings of such securities abroad on the latter date aggregated \$1,415,628,563 par value, or \$1,110,099,090 market value; and that the amount returned in the one and one-half years was \$1,288,873,801, par value. The market value of those returned in the year from July 31, 1915, to July 31, 1914, was estimated at \$641,338,822, but no estimate on earlier market values was made. If we were to apply the same percentage of market value to par value for the entire period it would indicate that the market value of railroad securities returned since January 31, 1915, was about \$1,018,000,000. Market values, however, were lower in the first six months and these figures are perhaps \$30,000,000 to \$40,000,000 too high. The Loree inquiry does not include railroad securities returned before January 31, 1915, or which were held in this country for foreign account, or which were not paying interest or dividends. It did not include industrial securities such as United States Steel, municipal bonds or public utilities. Besides these issues there are important foreign property interests in this country, in mines, real estate, real estate mortgages and in ordinary business enterprises. The latter class of property is not so readily disposed of, however, and the bulk of the liquidation has doubtless been in the railway securities. On the whole, we are disposed to think that our figures were a little high, and that \$1,500,000,000 to \$1,600,000,000 is high enough for the liquidation of foreign interests in this country since the outbreak of the war. This does not include our foreign loans.

A conference of French and British financial authorities was held at Calais last month, which the prime ministers of both countries attended, and at which arrangements were made for virtually pooling the gold reserves of the Allies; Russia and Italy, it is said, will participate. The Bank of France has already sent large sums of gold to London, pursuant to this and previous conferences. It is a remarkable fact that the Banks of England, France and Russia all hold more gold at this time than they ever had at any time prior to the war, and the heavy shipments to this country during the last five months have not been reflected in their official statements. This indicates that the governments have had stores of gold not included in the bank reserves, probably, in the case of Great Britain, new gold from the mines.

### Bond and Stock Market for September

The bond market in September has been active and firm. The average volume of sales on the New York Stock Exchange at the close of business September 25th was \$3,000, compared with \$3,259,000 in August, \$2,608,600 in July. The average price of listed bonds, as compiled by the *Wall Street Journal* was 94.21 September 25th, 93.74 September 1st, 93.74 August 1st and 90.43 July 1, 1915. The fractional advance during the month has been about equally distributed between railroad, industrial and public utility bonds. The close of the month investment buying by both institutions and individuals is on a large scale. Increased deposits in the banks and earlier dividend distributions to individuals have brought more funds into the market for investment. Foreign government short term securities are being liberally taken by banks on account of their ready market and high yield. The United States Government 6½% Credit has been in unusual good demand, advancing to 102¼. French 5's, American Foreign Securities and British Government 5's are all active and

No large foreign or domestic loans have been floated during the month, but several series of railroad, industrial, public utility and municipal bonds have been well taken. The City of Chicago, North Shore & Milwaukee R.R. sold \$3,620,000 First Mortgage 5% Gold Bonds which were offered publicly at 92½, a bid of 5.62%. This road is an electric, double track, high speed, interurban line connecting Milwaukee, Wisconsin, with Evanston, Illinois. The City of Cleveland sold \$4,000,000 Northern Ohio Traction Light First Lien & Refunding 5% Gold Bonds due 1956 are being offered at 94 to yield 5.62%. A block of Minneapolis, St. Paul & Northern Pacific Marie First Consolidated Mortgage 4% Bonds due 1938 have been offered on a 4.60% basis. The Metropolitan Water Board of London recently sold \$6,400,000 one year Duration Notes to New York bankers. The notes were sold to the public on a 6% basis. This is the first piece of financing in the New York market by the English municipalities. Near the close of the month, Kuhn, Loeb & Co. announced to the City of Paris of \$50,000,000 in five year 6 per cent. notes payable at the option of the holder either in gold coin of the United States or in francs at 5.5 francs to the dollar. This affords an opportunity for the holder to profit from a return of French exchange to the normal level.

City of Milwaukee, Wisconsin, 4½% Bonds and City of Newark, New Jersey, 4½% Bonds are being offered on a 3.90% and 3.95% basis respectively. On account of exemption of municipal bonds from the federal income tax which was increased by the last Congress, municipal bonds are in very strong demand and cities with good credit are able to borrow on especially favorable terms.



ale of \$500,000 United States 3 per cent. bonds issued in exchange for 2 per cent. bonds the Federal Reserve Act, was made in market last week on a 2½ per cent. basis.

Dominion of Canada has offered for subscription a new \$100,000,000 Internal 5% Loan due October 1, 1931, at 97½. The has been heavily over subscribed. The first Canadian war loan was issued in November 1915, ½ due in ten years and bearing 5% interest. Canadian government is therefore borrowing on more favorable terms than a year ago.

#### **An Active Stock Market.**

Trading in stocks continues very active. For ten consecutive full business days up to number 29th, sales exceeded 1,000,000 shares. On the 25th over 2,300,000 shares were sold, the largest volume of daily sales since May, 1907. The upward swing has carried both railroad and industrial stocks. The average price of twenty railroads as compiled by "Wall Street Journal" was 108.53, September 25th; 104.01, September 1st and 103.89, August 1st. The average price of twelve industrials was 150.88, September 25th; 129.62, September 1st and 123.68, August 1st. United Steel Common, International Mercantile Marine preferred and some of the copper stocks made exceptional advances on large trading. The daily average of stock sales for the week to the close of business September 25th was 1,090,500 shares, compared with 542,815 in August and 353,380 shares in July.

Contrary to precedent, the present stock market is easily financed at a season of the year when the demand for money all over the country is at the highest point, when increased business is being conducted with commodity prices at a high level and when loans are being made to foreign governments on a large scale. This condition follows a period when large quantities of American securities have been repurchased from abroad and in face of the fact that still further purchases will be made. There is a slackening in foreign investment, however, due to the decreasing value of money and to the policy of pledging securities for the last loans to the British and French governments. The continued heavy importation of gold have made loanable funds abundant and the usefulness of the Federal Reserve Bank with its rediscount possibilities has not yet been brought to a test. The stock market is going on in the face of poor crops, unstable railroad wage legislation and in the midst of a presidential campaign. Trading has been held in restraint for several months, due to an uncertain feeling in regard to the American industrial position after the war. With the end of the war not in sight, and with the increased need of our raw materials and reinforcements for munitions, the stock market is responding to record railroad and industrial earnings.

#### **Government Revenues.**

The treasury department estimates that the expenditures of the government for the fiscal year ended June 30, 1917, will amount to \$1,126,243,000, and that the ordinary revenues will be \$762,000,000, leaving \$364,243,000 to be provided for by extraordinary means. Of this amount, \$130,000,000 will be required for the extraordinary expense of mobilizing the national guard along the Mexican border. This amount, or whatever may be required for this purpose, the administration plans to raise by a bond issue. The remainder is \$234,243,000, of which the new revenue act is relied upon to provide \$205,000,000, leaving \$29,243,000 to be taken from funds brought over from the general fund from last year.

Although the revenue bill was amended in the Senate, and the copper taxes dropped, it is calculated that the additional taxes will quite make good the reductions. The taxes upon munitions were raised from ten to twelve and one-half per cent.

The income tax levies are about as they were fixed in the House, except that the Senate carried the progressive feature several steps further. The House stopped with a ten per cent. tax upon all income in excess of \$500,000, but under the law income in excess of \$1,000,000 and up to \$1,500,000 will pay eleven per cent., in excess of \$1,500,000 and up to \$2,000,000, twelve per cent., and in excess of \$2,000,000 thirteen per cent.

With the increase of the income taxes of course the exemptions become of greater importance, and this is reflected in the growing popularity of municipal issues. The effect is to penalize private enterprise and encourage public undertakings by making large sums available for such purposes. This means that the most capable and successful managers of business are being persuaded by the exercise of the taxing power to retire from business themselves and place their capital at the disposal of the most incapable and wasteful management in the world, to-wit: that of our constantly changing political administrations in the city, state and national governments. The common wastefulness of these administrations is notorious. Criticism of government expenditures upon public buildings, rivers and harbors, and even upon the army and navy, are always in our ears, and municipal administration is generally worse than that in the national government, but the very people who criticize most severely are usually incessant advocates of additional governmental functions.

This policy of encouraging the owners of wealth to turn it over to the state or its political subdivisions for handling is presumably supported upon a vague theory that capital so placed will be more beneficial to the community than if the owners invested it themselves. The common idea seems to be that even if it is squandered



under government management it will do more good than if used under private management, for example, in increasing the railway facilities of the country, or in electrifying the railways, so that trains may be drawn by water power instead of using up our coal supplies. Probably nobody supposes that these taxes will cause any rich man to spend any less for his own personal or family use; the one effect will be to curtail his constructive investments.

The law is liberalized in respect to losses which are made upon investments outside of regular business. Hereafter they may be offset against any gains upon the same class of investments during the year.

#### **Taxation Upon Foreign Investors.**

The provisions of this law make the income taxes expressly applicable to all income received by alien foreign residents from investments in American securities or properties in this country. This, in our opinion, is a mistaken policy. The reasoning is that since the foreigner derives income from this country he ought to pay taxes here, the same as our own people do. It ignores the fact that all the properties from which this income is derived do pay taxes here, that an income tax is not a tax which attaches to property but which attaches to persons, and that the citizen of another country owes and must pay income taxes to his own country. When in addition to paying income taxes to his own government we insist that he shall pay income taxes to the United States, we subject him to double taxation, and at this time, when taxation everywhere is very heavy, this will tend to diminish foreign investment in this country, and prevent such investments in the future.

One of the most serious problems to be met after the war will be that of holding the stock of gold which is now being received in payment for our extraordinary volume of exports, and which is becoming the basis of credit. Although this gold is mainly received at the port of New York it does not remain here. The stock of gold held by the associated banks of this city is not as large today as it was at the first of this year, notwithstanding the heavy receipts in the meantime. The Federal Reserve Bank of New York since it began business has paid approximately \$200,000,000 in gold through the gold settlement fund to the other reserve banks. This gold is being distributed over the country and being made the basis of bank credit. When the war ends this abnormal state of our foreign trade will end, and in the natural order of things we must expect an outflow of gold. A moderate movement will not be serious, but a heavy movement will mean that the foundation is taken from under our credit structure, and that credits all over the country must be reduced. Nothing is more important than that every possible means for controlling this gold movement shall be at our command,

and certainly nothing should be done to make that control more difficult. If we can sell to Europe at that time some of the securities which we are now purchasing such sales will count the same as gold. We have now a large supply of these securities which have a ready market abroad, which have been sold under the assurance of an emergency, and which the owners will be quite disposed to repurchase when in position to do so. Here is an important method of safeguarding ourselves against the uncertainties of the after-the-war period. Why do we set up obstacles to the repurchase of our securities and prefer to export gold?

There has been no little self-congratulation over the fact that New York was becoming the world money market, but such measures are likely to tend to keep foreign investors out of this market. They are an obstacle to international relations, and as such are opposed to the comity of nations, and to that growth of common interests in which it is to be found the greatest security in times of financial crisis and the strongest influence for peace.

#### **Retaliatory Features.**

The retaliatory features are in some respects the most unusual. In so far as they are intended to be placed in the hands of the President power to insist upon unjust discriminations against citizens of other countries they may be theoretically justified, but presumably the President will use the power with great caution and discretion. But the action which is said to be directed at Great Britain for having placed an embargo upon tobacco and other articles which are classed as luxuries is not legislation to be proud of. The European and British government are buying the products of this country upon a scale never approached in the past, and the problem of providing means of payment if the war continues several years is one that may well cause apprehensions. Under the circumstances the British government is unquestionably justified in making efforts to restrict the foreign purchases of its people to articles of necessity; there would seem to be a singular lack of propriety in our making any complaint about this. The original prohibition was modified several months ago, and importations are now permitted under regulations of the British Board of Trade. The original act and all the regulations apply to all neutral countries alike. Incidentally, it should be mentioned that Germany has prohibited the importation of tobacco except from her allies.

#### **The Federal Reserve System.**

The amendments to the Federal Reserve Act made at the last session of Congress do not materially alter the workings of the law, but they enlarge in some minor respects the powers of the Reserve banks and of the member banks.

Authority is given the latter to subscribe



not exceeding ten per cent. of their capital and surplus to the stock of one or more banks organized to do business principally in foreign countries, and member banks in towns exceeding a population of 5,000, are authorized to act as the agent of any fire, life or other insurance company authorized to do business in the state, and to act as agent for placing mortgages on real estate located within one hundred miles of the bank. The authority of national banks outside of the central reserve city to do business on real estate is also slightly liber-

alized. The right of member banks to accept drafts is materially extended. Drafts drawn by foreign banks or bankers upon not more than thirty days sight for the purpose of supplying foreign exchange, may be accepted, and drafts not over six months to run, which are the result of transactions involving the shipment of domestic goods, may be accepted upon warehouse receipts or shipping documents conveying title to the goods accompany-

ing the acceptances may be discounted by the Federal Reserve banks when they have a maturity of not more than three months. The amount to which a bank may accept in direct transactions, foreign and domestic is not to exceed fifty per cent. of its capital and surplus in the case of like amount additional is permitted in the case of foreign transactions. The amount up to which a bank may accept for a single firm or company is limited to ten per cent. of its capital and surplus, but this seems to be in addition to the same parties up to a like amount. Federal Reserve banks are given authority to make advances to member banks for more than fifteen days, upon the security of mortgages, drafts, bills of exchange or acceptances that are eligible for re-discount. This enables the member banks to obtain funds more readily without parting with the paper permanently.

The amendment authorizes the Reserve banks to permit member banks to carry in the vaults of the Federal Reserve banks of their respective districts any portion of the reserves required by law to be kept in their own vaults. That is to say, the local banks will be allowed to determine for themselves what amount of their reserves they will carry in their own vaults. The other amendment allows the Reserve banks to use the paper acquired under the provisions of section 14 (open market transactions) as security for issues of Federal Reserve notes the same as paper acquired direct from member banks under section 13.

### The Gold Reserves.

The efforts of the Federal Reserve Board to give their notes directly in exchange for gold were by a strange spasm of

conservatism defeated in the House, the Senate having adopted the provision. This is precisely what all the great central banks of Europe do, and it is the direct and principal method by which they replenish their gold stocks. A remarkable spectacle has been presented since this war began, in all the belligerent countries, by the action of the people, in response to an appeal from the governments turning their private holdings of gold coin into the central banks in exchange for bank notes. It is done to strengthen the available gold reserves of the country, and the citizens who give this assistance receive handsomely engraved certificates which make acknowledgment of their services and which they can hand down to posterity. It was a defect in the Federal reserve system not to provide originally for such exchanges, and the failure to pass this amendment is a mistake. The Reserve banks should have every possible means at their command for strengthening their reserves of gold.

We are convinced that, in furtherance of this purpose, it will be found advisable eventually to allow Federal Reserve notes to be held as the reserves of the member banks. We are aware of the opposition to this policy and familiar with the reasons urged against it, but we do not accept them as equal in weight to the gains that would accrue from it. This country is rich in gold, but only a small portion of it is where it will be available to support the banking system in any real crisis. Inflation or any weakness in the monetary system or credit situation of a country will show its first symptoms in a demand for gold for export. This is where the real pressure will appear, and it must be met at New York. Gold scattered among the interior banks from here to the Pacific Coast will avail little. It would be necessary to take up a voluntary collection, or start a subscription list as was done to create the gold fund in 1914.

The gold stock of the country should be accumulated in much larger proportions in the vaults of the Federal reserve system, and that can never be done while gold or gold certificates are required to be kept in the reserves of all the member banks. The gold stock of the country is kept scattered by this requirement. But if the member banks were permitted to use Federal Reserve notes for their reserves they would give up their gold and gold certificates in exchange, with the result that our gold stock would be concentrated and made a vastly more effective protection to the country.

Of course it will be said that this is making one credit the basis of another, but Federal Reserve notes backed as they are now and as they would be under this policy, by so large a percentage of gold, are an exceptional form of credit. It is inconceivable that the authority to issue these notes, exercised under the publicity



which attends the operations of the system, will be seriously abused, and it is quite certain that there will be no undue inflation from the mere act of giving notes in exchange for gold. A credit at a Federal Reserve bank counts as reserve and there is no good reason why a credit on hand in the form of Federal Reserve notes should not have the same virtue.

The purpose in establishing the Federal Reserve System was to centralize reserves, and to place the banking system under strong central authority. Large powers must be conferred upon this central authority in order that it may perform the service that is expected of it. The authority to issue currency is admittedly a power which must be carefully guarded, and for this reason it is placed under the supervision of one responsible official body, instead of being left to the judgment of numerous banks. The effectiveness of the system depends largely upon the command given to this central authority over the reserve resources of the country. That is the fundamental feature of the system. It is a contradiction of the whole policy of centralizing reserves to scatter the gold stock of the country through all the member banks. We have established reserve banks without the most important reserves. It is setting up an agency to protect the country against financial crises and denying it the most effectual means.

There is no other country of the world where all the banking institutions are required to carry specified reserves, and in practically every other important country the notes of the central bank are used as the reserve cash of the other banks. The great German and French banks carry practically no cash but the notes of the Reichsbank and the Bank of France.

If the currency of the Federal Reserve system is not suitable for similar use the system must be inferior to that of other important countries, and we should not rest content with this admission.

### The Railway Wage Legislation.

There is an abundance of evidence that the action of Congress in compelling the railway companies to accede to the demands of the trainmen does not have general approval. A sense of relief was undoubtedly felt that the country was not obliged to undergo the inconvenience and losses that would have been inevitable, and the disorder that was apprehended, as the result of a strike, but the sober judgment of the country condemns the abandonment of judicial methods, and a complete surrender, without investigation, to threats of great public injury. The members of Congress who voted for the measure generally acknowledged that the policy could not be justified upon any plea but the one which justifies surrender to a foreign enemy, to-wit: that for the sake of non-combatants it is necessary to yield to superior force, without considering the merits of the case.

That timorous decision does not sit well with the American people. There is something repugnant in the idea of bringing the power of government to enforce the demands of a comparatively small group of men, under threat of which they may do to the community, without inquiry as to the reasonableness of their demands.

We, in this country, have had a great deal to say in the last two years about the low state of civilization in Europe as evidenced by the trials. These comments have been based, presumably upon a conviction that the conflicting interests of nations should be adjusted by some kind of official procedure, according to reason and established principles of justice, instead of by brute force. We seem to have been unanimously of opinion, as critics of Europe, that it is detrimental to civilization to have such an official method of settling disagreements, and that men shall be willing to accept settlement of grievances in this manner. But in this recent controversy inquiry and reason were given no place; the terms were dictated by one side. Congress took the ground that there was nothing to do but make the other side submit, or that the public would suffer dire consequences.

### **Practical Features of The Issue.**

It is singular that in the discussion of the subject so little attention has been generally given to the practical phases of the eight hour day in service. It is treated by very eminent persons as on the same basis with other demands for an eight hour day, but evidently there are special reasons why this demand should not be entered in an arbitrary manner. The railway divisions are already established as approximately one hundred miles in length. At the division terminals freight yards, engine houses, repair shops and other structures have been constructed which the aggregate represent a large investment. These terminal points have become important towns, based in many instances largely upon the population of railway employees, and a removal of this population to new division points would seriously affect local trade and real estate values. The railway employes, trainmen, shopmen and others, who own homes at the division points, would be involved in this general loss. The question of shortening the divisions therefore has not been considered either by the railway officials or the brotherhood officials; both sides assuming that the train runs will remain the same? How is the time of trainmen on duty to be shortened?

The officials say that the trainmen do not want it shortened, but are aiming simply at more time and higher pay. It is evident that the time which now takes ten hours and continues to take ten hours under the new arrangements will yield two hours overtime and a twenty-five per cent. increase of pay. The reply made by the trainmen is that by cutting down the length of the trains and running faster, a run of one hundred miles can be made in eight hours instead of



is policy would nullify much of the great literature which has been made in recent years to express purpose of increasing train loads. There has been the marked development in railroading and, but for the economies thus effected, it would have been impossible for the roads to have made the numerous wage advances that have been made, or to have met the increasing cost of supplies and equipment, without greater increases in their charges. The cost of moving freight increases with the speed of the train and, of course, the public is interested in all legitimate economies in transportation costs. The figures for the Chicago & Northwestern railway show that the train load has been raised from an average of 210 tons no longer ago than 1910 to 250 tons in the year ended June 30, 1916, and this has brought an increase in the revenue per train from \$2.32 to \$3.28 although the average rate per ton mile was lower in the latter year than in the former. Economic results like these ought not to be surrendered without consid-

There is another phase of the subject in which the railway service differs from continuous labor. Over the years the result of delays in making the run, and the time is spent in waiting. It is true the trainmen are on duty, and that waiting is irksome, but by determining the hours which shall constitute the work, and comparing train service with other kinds of labor, it certainly makes a difference whether men put in a full day at exhausting work or a part of the time waiting.

There is still another factor in the case. Whether trains cover their runs within schedule or not depends largely upon the trainmen themselves, and shortening the time will not only give a legitimate and necessary increase of overtime but offers an opportunity and inducement for the men to work overtime when it is unnecessary.

Some of these features are peculiar to the eight hour day in train service. They distinguish it from the eight hour question as applied to most other trades, where it is advanced from humane considerations and upon the theory that men in the long run will accomplish as much in eight hours of continuous work as in ten hours. No discussion is candid that does not recognize these differences and they make it particularly desirable to have an inquiry to determine the public interest which should precede legislation.

### The Right to Strike.

Senator Underwood offered an amendment to the bill authorizing the Interstate Commerce Commission to fix the hours of labor and wages for railway employees, after the report of the commission created by this act had been received. His proposal did not include any authority to force the employees or restrain them from striking if indisposed to accept the action of the commission, but it was voted down because it was understood to be unacceptable to the brother-railroaders, and on the ground that it implied an

authority in the government to make men work against their will. It is difficult to see how the latter view can be seriously urged. There is no suggestion that men should be compelled to continue in the railway service if they desired to quit as individuals for the purpose of taking other employment. There is clearly a difference between quitting in good faith for this reason, and joining in a conspiracy to quit for the purpose of stopping traffic and forcing an advance of wages. It is the same difference that exists between withholding goods from market because of your own choice you do not wish to sell, and joining a conspiracy with others to force up prices. The latter is an illegal restraint of trade, and effectively punished.

If the railways were owned by the government would the employees be permitted to fix their own pay and strike to enforce their demand? Would the employees of the postal service be permitted to do so? Either proposition is absurd. Places in the railway service and in the mail service should be regarded as positions of trust; both services are vital to the public, and nobody should be allowed to hold them and take advantage of his position to extort something that an impartial inquiry would not award on the merits of the case. The fact that employees have sought and obtained the places they hold does not vest in them the right either to fix their own pay or to suspend the public service. The rights of the many cannot be sacrificed to favor a few.

### Public Interests Paramount.

Employment of any kind that in the language of the law is "affected of a public interest" is evidently on a different basis from employment in industries not so recognized. In the private industries great liberty is given to employers and employees to fight out their differences. One may favor the policy of arbitration in the private industries without approving of its being made compulsory, for the public interest is a minor consideration in the majority of such cases, and the propriety of interference is questionable.

But the public has a right to maintain services that are necessary to the community welfare, and to protect itself against arbitrary power in any hands. The courts have always maintained that right against capital in control of any utility or service. The railway owners have had to bow to this authority, and the public has an equal right to say by law that railway employees shall not conspire to stop train service. The fact that the railways are operated under private ownership makes no difference with the principle; the public has an interest in the service that is paramount to the interest of either owners or employees. Investors must make their investments, and employees must take service, with full knowledge that the public interest is supreme. When this is thoroughly understood this situation will not be repeated. The law as passed, simply



provides for a commission of three persons to investigate the effect of the eight hour standard work-day upon the railways and report its findings to the President and Congress. Pending this report the railway companies are required to pay the present ten hour wage for eight hours, but after thirty days from the date of the report the law expires by limitation and the whole subject will be open to controversy again.

### The Interests of Labor.

It is greatly to be regretted that organized labor should so often lay itself open to the criticism of taking the narrow and limited view, and of obstructing instead of promoting industry. It is perhaps a natural result of controversies with individual employers, often as illiberal and limited in view as themselves, that the labor leaders should come to assume an inevitable class conflict between employers and wage-earners, and in their efforts to strengthen the unions preach this doctrine.

With the desire of men to better their condition, of course, no fault is to be found; on the contrary, every encouragement and stimulus should be given to it. The right kind of efforts to this end are beneficial to the whole community, and this furnishes the correct test of every effort and policy: Is it consistent with the general welfare? No class of people can make much progress by policies that are antagonistic to the community as a whole, and certainly the wage-earning class cannot do so, for outside of agriculture, the wage-earning class includes the larger part of the community.

When a farmer makes a study of the soil and the science of breeding, and thereby increases the yield of his farm, he enlarges his own income, but also benefits the community, and gains of this character are always welcome.

The fundamental fault of the labor leaders is in thinking of the wage-earners as a class apart from the community, instead of as being themselves the major portion of the community. They lay all emphasis upon jobs and wages, and apparently forget that the earning of wages is only one-half the process of getting the necessaries and comforts they want in their homes; the other half is in disbursing their wages to buy these things, and if everything they want is made scarcer and dearer, the effect is the same to them as though their wages were lowered. The effect of higher production costs and higher selling prices is to curtail purchases and lessen the demand for labor, so that the scheme of restricting production is a failure, even as a means of making more jobs. If transportation costs are made higher by the wage advances granted to the railway trainmen, the burden will fall on the general public, and be paid, for the most part, by the farmer and wage-earner.

There was some talk that if the railway went on a strike they would be supported by the Federation of Labor, which would call the wage-earners of its organization into trades. This would be carrying the idea of class conflict to an extreme where its effect would be apparent. The effect would be to stop the production and distribution of goods, but for whose consumption are goods produced and distributed? It is certainly not chiefly for the 357,515 persons who paid income tax last year and their families. They would suffer a comparatively slight inconvenience. It would supply the wants of the other 100,000,000 people, and chiefly to supply the wants of those who depend upon their weekly earnings for their weekly purchases, that the vast machine business is required. No attack upon the organization by which the necessaries of life are supplied can be as serious to the small number of rich people as it is to the great body of poor people. One million people could not suffer much deprivation as one hundred millions could if their resources were no greater. The operation of the railways is not so important to the people who own them as to all the other people of the community; the operation of the mines is not so important to the owners as the consumers of fuel, and so it is throughout industry—any interruption or disablement affects the great body of consumers more seriously than the owners.

### **General Eight Hour Day.**

The eight-hour day must be considered as a very light thing. It is advocated usually as a concession to be conceded by employers, but it increases the cost of things, the increase will be paid by the entire community on the basis of consumption. If the hours of work are reduced in all town and city employment, in transportation, unless the same amount of work is done in eight hours, more people will have to be drawn from the farms, and the price of food and farm products will be higher as a consequence. We take the following extract from the letter of a country banker in an agricultural section, dwelling upon this point:

The first requisite for society's existence is food. I believe that the influences which I have mentioned have so raised wages as to attract away from the farms so much human energy as to seriously curtail food production, and we all know that before the war we were not sparing a great surplus and at present I believe the prospects are for a shortage of everything but labor. I am satisfied that people in the cities have but little knowledge of the impossibility of obtaining farm products. It is not a question of farmers knowing how to increase production, it is simply do the best he can and let the help he can get.

It is perfectly idle to discuss an economic question from a purely sentimental point of view. If we are to be practical we must consider what the effects of a proposed action will be. When the eight-hour day comes it will



nothing, because it does not reduce production, or it will cost the entire community, placing the wage-earner, to the extent of the production, and in the latter event the loss will be most serious, of course, to people on all incomes.

### The Sympathetic Strike.

Not only is it impossible for the wage-earners to separate their interests from those of the community as a whole, but it is unwise for them to make common war against all employers. There are different kinds of employers, as there are different kinds of people who work for wages; in fact there are few employers who have not been wage-earners. As a matter of justice the employer who is disposed to be fair is entitled to be dealt with accordingly, and it is to the interest of wage-earners in the long run that an employer shall be paid by being fair. It is by this means that peace will be made. The basis of civilized life is the sanctity of agreements. Modern peace cannot be carried on without recognition of this principle. The business man who does not conform to it is an outlaw, and if ordered labor aspires to be a legitimate and a factor in the life of the country it must

conform. When an employer enters into an agreement with his employees or with an organization which represents them, which is to govern his relations with them for a specified term, he does so with the understanding that he may go on and make contracts based upon that agreement. The sympathy strike, under which workmen are called out without any grievance against their own employers, and in violation of a contract, is destructive of all orderly and definite relations in industry.

### Fear of Unemployment.

No one can make a study of the attitude of labor organizations toward machinery and all changes in the methods of production which seem to dispense with labor, without recognizing that the fear of unemployment is behind it all, and this anxiety should enlist sympathetic consideration. It has been the spectre at the workingman's fireside for generations, and planted apprehensions deeply in his mind. He sees that the direct and immediate effect of machinery is to displace labor, and he hears even experienced and presumably well-informed men talk of over-production. It is not strange that he should fail to follow the new influences to their ultimate effects or that he should rebel

## STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS SEPTEMBER 29, 1916. (In Thousands of Dollars)

SOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
and certifs. Set- fund. Cr. Balances	8,219	157,324	11,721	14,587	5,098	3,878	29,838	6,037	5,903	4,140	3,311	10,789	260,845
tlement Fund .....	15,618	11,719	16,588	13,081	13,718	3,401	19,623	3,401	5,289	10,736	5,995	5,613	124,421
emption Fund .....	5	250	50	86	439	241	200	80	30	121	417	10	1,929
total gold reserves..	23,842	169,293	28,359	27,754	19,255	7,159	49,661	9,518	11,222	14,997	9,723	16,412	387,195
under notes, Silver and Sub. coin.....	140	3,293	291	1,018	78	575	805	1,132	203	22	223	31	7,811
total Reserves.....	23,982	172,586	28,650	28,772	19,333	7,734	50,466	10,650	11,425	15,019	9,946	16,443	395,006
ption fund- F. R. notes.....										400	100		500
ounted, Members cial paper.....	806	782	124	639	5,268	3,906	2,447	2,092	1,882	1,615	6,039	353	25,953
ight in open market	10,246	24,529	11,385	6,563	2,346	3,127	5,647	5,543	3,051	1,416	144	6,628	80,625
total bills on hand..	11,052	25,311	11,509	7,202	7,614	7,033	8,094	7,635	4,933	3,031	6,183	6,981	106,578(c)
ent U. S. Bonds ..	2,922	2,728	2,662	6,254	1,019	1,508	8,303	2,694	3,307	9,617	2,896	2,634	46,544
r U. S. Treas. notes	250	250	818	760	684	526	850	570	350	616	529	724	6,927
al Warrants.....	4,532	4,873	2,386	2,652	86	289	4,138	1,510	1,277	359		1,926	24,028
total Earning Assets	18,756	33,162	17,375	16,868	9,403	9,356	21,385	12,409	9,867	13,623	9,608	12,265	184,077
Reserve Notes, net in other F. R. Banks	759	8,313	465	406			1,410		1,341			1,556	14,250
r resources.....	2,670			4,269	1,374	57	12,524	7,430	841	1,149	2,322	1,073	31,365(b)
	74	5,249	205	256	62	172	377	215	787	186	516	154	7,543
RESOURCES.....	46,241	219,310	46,695	50,571	30,172	17,319	86,162	30,704	23,551	30,377	22,492	31,491	632,741
LIABILITIES													
aid in.....	5,024	11,602	5,222	5,997	3,325	2,491	6,687	2,794	2,597	3,043	2,691	3,920	55,393
ment Deposits.....	3,236	5,673	6,029	2,141	4,018	3,858	3,124	3,781	1,084	1,040	2,186	2,815	38,985
Deposits, net.....	37,833	201,430	33,617	42,433	17,950	9,883	76,351	21,789	19,870	24,101	11,727	24,756	521,740
Reserve Notes-net				4,763	1,065			2,340		1,160	3,888		13,216(a)
Reserve Bank in circulation.....										1,033	2,000		3,033
other F. R. Banks		605	1,739										
r Liabilities.....	148		88		116	22							374
LIABILITIES.....	46,241	219,310	46,695	50,571	30,172	17,319	86,162	30,704	23,551	30,377	22,492	31,491	632,741

total Reserve notes in circulation 196,538  
after deduction of items in transit between Federal Reserve Banks, 31,365, the Gold Reserve against Net deposit and note Liabilities 71.4% and the cash reserve is 72.8%. Cash Reserve against net deposit and note liabilities after setting aside 40% Gold Reserve against net liabilities on Federal Reserve Notes in circulation 73.6%.  
maturities of bills discounted and loans: within 10 days, 21,408; to 30 days, 23,245; to 60 days, 36,527; other maturities, 25,398; Total: 8,578.



against sacrificing immediate interests for a general good which he is unable to see. It looks to him as though greater facilities of production made the wage-earner's job more precarious and piled up products faster than they could be sold. Nothing else would accomplish so much for industry as the dissipation of this idea, and nothing will do so much to dissipate it as steady employment.

Over-production is, of course, possible in particular branches of industry, but unbalanced production is a better term for such a situation. If all the farmers would set to work to grow nothing but wheat there would be too much wheat for the market in one year. If in a shoe factory too many men were set to making heels there would be an over-production of heels, and that department would have to slow down until the other departments caught up. There are inevitably many such unbalanced situations in an industrial society where every man has the liberty to choose his own employment and hunt work where he pleases. It is a rough adjustment at best, but it is possible that there may be a greater degree of co-operation for the support of industry than has been given in the past. The development of strong industrial units and of a well organized banking system are favorable to such efforts. The recovery from the panic of 1907 was more rapid than from any previous panic of like severity chiefly because the financial resources of the country were greater. One of the reasons long argued for reform in our banking system was this, that it would do much to protect the country from the extremes of credit inflation, unbalanced development, and consequent depression. The necessary expenditures for public improvements in this country are now an important factor in industry, and these may be wisely planned to help in maintaining the industrial balance. There is wanted a definite constructive policy to this end, in which the public authorities, the various branches of industry and the investment forces of the country shall be co-ordinated. It is a large undertaking, but once the purpose is formed, the organization to accomplish it will develop. Every period of reaction and depression is the result of industry becoming unbalanced, and when this occurs every branch of industry and

every kind of business suffers. There is a work to be done, both at home and abroad which will afford business for every American industry and employment for every American worker, if the organization can be formed to handle it, and there can be a good understanding of how mutual interests are served.

#### **Will Labor Co-operate After the War.**

In the present condition of the market labor organizations are able to force many concessions which appear to come from employers but they get them because the employees are able to add the cost to the price of the product. The scarcity of labor and the demand for it all over the world over creates this temporary situation. Since the general cost of living has risen this is justification for the claim of the individual wage-earner that his wages should be increased, although every advance contributed to carry the movement further. A scarcity of goods can never be made up to everybody by rising prices; the only way a scarcity of goods is actually met is by a reduction of consumption.

What gives the greatest concern, however, to those who look to the future and endeavor to plan for industry after these abnormal conditions are past, is the fact that in many instances labor leaders are openly declaring that they do not intend to make the most of the present situation to gain concessions, but they intend to demand no counter concessions hereafter. What they get now they intend to hold. This, of course, is upon the theory that they are getting these concessions from the employers, while in fact the cost is being borne by the public, including themselves. When the war is over, and the soldiers and the armies return to work, and instead of having a great market for our goods abroad we find ourselves unable to sell abroad because our prices are too high, the problem of how to keep our factories and shops running will be one in which the labor organizations are vitally interested. An intelligent observer has only to look at the figures of our monthly exports to see how much of the production of our factories is going abroad at the present time. The war supplies go regardless of price, but that will not be true of peace. The situation will call for intelligent co-operation by employers and wage-earners; both are interested in avoiding a slump of industry and a period of unemployment.

**THE NATIONAL CITY BANK OF NEW YORK**



## **"City Bank Service."**

---

### **THE NATIONAL CITY COMPANY**

offers a service which is the outgrowth of the long and active business experience of the bond department of The National City Bank of New York, and N. W. Halsey & Company with offices in New York, Philadelphia, Boston, and San Francisco.

The company will recommend issues which have been carefully analyzed by experts, offer investment suggestions, prepare diversified lists and render a superior service to investors.

The yield to investors in the list now offered, varies from 3.20% to 6.30% according to the class of securities selected. Send for a copy of this circular B-51.

The company maintains offices in principal investment centers. Address inquiries to the nearest city, or to the main office.

---

### **The National City Company**

**National City Bank Building, New York**

#### **CORRESPONDENT OFFICES**

<b>PHILADELPHIA, PA.</b> 1421 Chestnut St.	<b>BALTIMORE, MD.</b> Munsey Bldg	<b>WASHINGTON, D. C.</b> 717-14th St. N. W.
<b>BOSTON, MASS.</b> 55 Congress Street	<b>CLEVELAND, OHIO</b> Guardian Bldg	<b>PITTSBURGH, PA.</b> 1018 Farmers Bank Bldg
<b>SAN FRANCISCO, CAL.</b> 424 California St.	<b>DETROIT, MICH.</b> Dime Bank Building	<b>WILKESBARRE, PA.</b> Miners Bank Building
	<b>BUFFALO, N. Y.</b> Marine Nat'l Bank Bldg	
	<b>ALBANY, N. Y.</b> 41 Dow Building	





1916

## Economic Condition Governmental Finance United States Securities

### General Business Conditions.

**T**HE chief feature of the past month has been the rise of prices, particularly in agricultural products, based upon a confirmation of earlier reports concerning the crops. There is no escape from the unpleasant fact that this country and the whole world are entering upon a year of scarcity, and of probably the highest prices for food products experienced by the present generation. It is, of course, something to be deplored from every viewpoint, and cannot but be an unfavorable factor in the business situation until relief is afforded by a more abundant yield of the common necessities. The vast machinery of the industrial and business world is too complicated to allow of ready adaptation throughout to these sudden changes in the cost of living, and they inevitably inflict much hardship upon individuals and occasion no little industrial derangement.

#### The Wheat Crop.

The government's October estimate upon the year's production of wheat in the United States was 607,577,000 bushels, which compares with a final estimate of 1,011,505,000 bushels in 1915. Furthermore, the government estimates the average weight of this crop at 51.4 lbs. per measured bushel, against 57.5 last year, the lightest in years. This is calculated to be equivalent to a further reduction of about 60,000,000 bushels. The Canadian wheat crop is officially estimated at 159,123,000, as compared with 370,303,600 in 1915. Moreover, the work of threshing the crop has been delayed by a shortage of labor, and latest reports say that much of it is still standing in the shock and covered with snow, a condition which may result in serious loss. Last year's big Canadian crop has moved out and the visible supply there is now below that of a year ago. The world situation is worse than a month ago by reason of a continuance of the drought in Argentina, where the crop seems to have met with disaster, and unfavorable news of the yield in both France and Italy. The Australian crop is promising well, and that country has reserves from last year. The Indian crop also will give a surplus for export, but altogether the world's

NEW YORK, NOVEMBER

wheat crop is about 25 per cent. below last year's, and the prospect is that every available bushel will be wanted to meet normal consumption, leaving practically nothing to be over.

The situation would be materially altered if the Russian surplus could be brought out. The state of war in the Balkans does not encourage this expectation. The British government has undertaken to make all purchases only for home consumption but for France, Italy, and to supply ships for transportation. It is expected that the Canadian crop will be commandeered, but probably not until British purchases have been completed in this country. Wheat for December delivery at Chicago sold up to \$1.90 per bushel, the highest since the Civil War, and then the price depreciated paper currency.

#### Other Food Supplies.

The situation is aggravated by the fact that there is no compensating abundance in the other food crops. Corn gives a moderate yield, oats are a fair crop, potatoes are distinctly short, and the vegetable and fruits used for canning are all in short supply. Corn bids fair to sell in the Middle West at an extraordinary price of \$1 per bushel, and this will be reflected in the price of meats. As reports from the live stock markets say, a few well finished beeves are being received, but it requires courage for a farmer to put a steer upon cattle with corn worth above 80 cents per bushel. The hog crop seems to be good, but the provision market is kept up by high prices for corn and a great European demand. An informed Chicago writer says:

The amount of meats that have been shipped to Belgium since the Belgian Relief Commission has been established is enormous and forecasts a period of big trade from Europe during and after the war is over and there is no doubt that prices for all kinds of hog product will prevail for a long time and the stocks of very cheap meats which existed two or three years ago are now the question.

Butter, eggs and meats are moving from this country through Canada to Great Britain.



quantities, and to a great extent in pursuance of contracts made last summer.

### Materials For Manufactures.

Materials for manufactures have also been suffering under the extraordinary demand, with a short yield of such as are produced from the soil. Cotton has touched 20¢ per pound within the last week, the highest price ever known in this country, if deferred deliveries be excepted. The crop was short by floods.

Wool is another scarce article, due to the heavy consumption for the armies and the embargo. American manufacturers have been buying heavily of late in Argentina at 15¢ per cent per pound and upwards for quality, at a cost about 20 cents before the war. Freight charges make an even greater increase in final cost at the mills. The demand for woolen and cotton goods continues, but it is too early to say how the retail trade will take to goods made upon the basis of present costs.

Cotton mill operatives at Fall River have not had another advance of ten per cent. in wages, and the managers have declined to grant it, alleging that many of them are still working upon contracts taken at lower prices, and that more time should be allowed to lapse before another increase is considered.

The iron and steel industry is becoming seriously embarrassed by a shortage of coke and by a shortage of labor and of cars. The situation is becoming tighter, and with increasing consumption it looks as though some places might not be able to take care of the demand. Stocks have worked low and prices are higher with some talk that there may be a shortage of ore another season.

The scarcity of labor and high wages paid in industrial districts of the north has caused considerable movement of negro laborers from the southern states, with some embarrassment to the labor market in that section.

There is nothing in current conditions to indicate a near change in the industrial situation. The demand is full, wages are advancing, the rural districts are very prosperous, and the roads have more business than they can handle. There is much that is abnormal and unsatisfactory in the situation, but the volume of production and consumption is unimpaired, and will doubtless continue on this basis while the war lasts. While it is true that the volume of our foreign trade is but a small percentage of our domestic trade it is evident that the former is at this time a tremendous factor in the latter. Our exports for the last four years have been running at the rate of \$6,000,000,000 per year.

The money market is controlled by the movements of gold, and no material change in

rates is to be expected while they continue on the present scale.

### Bond and Stock Market for October.

The second secured gold loan by the United Kingdom of Great Britain and Ireland in the United States, has been brought out more quickly after the first than was anticipated, owing to conditions which we discuss elsewhere. This loan is for \$300,000,000 at 5½%, one half maturing in three years and one half in five years. The three year maturity has been publicly offered at 99¼ yielding about 5.75% and the longer maturing at 98½ yielding about 5.85%. The loan is secured by deposit of \$360,000,000 market value of securities of which one half consists of United States Government corporation issues including those of the Canadian Pacific Railway and of the Canadian Government. The balance of the collateral is composed of dividend paying British Railway Company obligations and government securities of British dominions, South America governments, Cuba, Japan, Egypt and India. The principal and interest of the loan is payable in New York in U. S. gold or at the option of the holder in London in sterling at the fixed rate of \$4.86½ per £. The notes are free from any British taxes present or future. The offering was made by a large syndicate and the issue has been very well received.

New borrowings by domestic corporations are in sight, a fact that is accounted for in part by the accumulation of large cash balances through good earnings. The supply of our own high grade securities is therefore decreasing in comparison with the demand. This condition has helped the sale in this country of foreign loans which offer high yields for such a class of securities. Some of these issues are collaterally secured, as the current British loan. Others provide opportunities for profits in exchange, while others are plain general credit government obligations. As has been previously pointed out in these columns, our sales in merchandise, food stuffs, etc., to foreign nations have now reached such an unprecedented magnitude that we cannot expect payments to be made in gold and general imports.

Other foreign loans announced during October, outside of commercial credits, include \$7,500,000 to the Brazilian Traction, Light and Power Company, \$5,500,000 to the City of Sao Paulo, Brazil, and \$2,000,000 to the City of Dublin, Ireland.

Southern Railway Development 4s have been active at advancing prices, due to a proposition submitted to the bondholders to exchange their present bonds for a new 4½% refunding and improvement bond. The stockholders are to vote upon the issue of the new Refunding and Improvement mortgage under which future bonds may be issued from time to time at vary-



ing rates of interest as the bond market may require, but in no event to exceed 6%.

Chesapeake and Ohio Convertible 5s have advanced to around 97½ reflecting the good earnings of the company.

The whole bond market continues very active. Sales on the Stock Exchange for the month of October to the close of business on the 28th amount to \$132,864,500, a daily average of \$5,776,000 compared with \$3,885,800 in September and \$3,359,000 in August. Total sales for the year to the 28th amount to \$918,787,450 which is more than \$200,000,000 above the sales for the same period in 1915. Dealings in foreign government issues such as the Anglo-French 5s, American Foreign Securities 5s, United Kingdom of Great Britain and Ireland 5s and Russian Government 6½s continue to form a large percentage of the total bond sales. The activity in the bond market has been accompanied by an advance in prices. The average price of forty listed bonds, as compiled by the *Wall Street Journal* October 28th, was 95.11 compared with 94.50 October 2nd and 93.77 September 1st.

The directors of the New York Central Railroad Company have authorized the sale of 250,000 shares of treasury stock of the Company. The stock will be offered to stockholders at par to the extent of ten per cent. of their holdings. It is an encouraging sign in the railroad situation that the New York Central is able to provide for new capital requirements from the owners of the property rather than from the creditors.

The stock market continues very active but more irregular than during the previous month. The market has experienced sharp breaks especially in certain industrial issues whose future is more or less closely connected with the continuance of the war. The general level of prices remained practically the same at the close of business October 28th as at the beginning of the month.

### The Influx of Gold.

The continuance of gold importations on a large scale has been the most important fact of the month in finance. The British Chancellor of the Exchequer stated in the House of Commons recently that the purchases of the British government in America were running at the rate of \$10,000,000 per day, and while they continue at this rate it is evident that gold must come forward unless loans are made here upon a scale even larger than in the past. Gold arrivals from Canada during the past month amounted to about \$75,000,000 and the net increase in the country's gold holdings since January 1, 1916, has been approximately \$400,000,000.

It requires no profound knowledge of economics to understand that these extraordinary additions to the bank reserves of the country

are undesirable. They are not required to carry on the normal business of the country and if they are used as the basis of credit expansion will be of dangerous proportions.

The quantitative theory of money, or the effect of changes in the supply of money upon credit upon prices, is a subject of never-ending debate among economists, but the controversy is largely over imaginary differences. The increasing bank reserves support and encourage an expansion of credit will scarcely be questioned, and that this expansion of credit and the creation and use of additional purchasing power is an equally familiar fact. The country is doing business at this time under conditions which, superficially considered, are calculated to encourage people to go into debt. Money is easy, and interest rates are low, while the profits of business are unusually large. There is a temptation to borrow money to buy stocks of companies that are making phenomenal earnings and to enlarge industries that are making such earnings. There is a demand for goods which scarcely stops at prices. With money easy and cheap there is a temptation to increase the output; but every attempt to do so means further demand for labor, materials, and thus tends to put our industrial system upon a higher level of output. Similarly, the high prices for farm products will naturally encourage farmers to use more money to buy more land.

Fortunately, the whole country has been so far profoundly impressed by the temporary character of this prosperity, and extremely cautious in its operations. The periodical fluctuations of the stock market have had a wholesome influence there, and it is not easy to show that there has been undue expansion of industrial indebtedness up to this time, but as long as conditions remain so favorable, the danger is present. If the new supplies of gold are helpfully used, and may be harmfully used, they had better not be in the country at all.

### **Foreign Loans.**

This view has prompted bankers to be cautious favorably upon foreign loans and to encourage offerings in this market as fast as they can properly absorbed. They serve the double purpose of facilitating foreign purchases of American commodities, and of reducing current importations. While it is inevitable that the latter will be very large, the loans will keep them in check and take up, in part at least, the new lending power which they create.

While thus serving a useful part in preventing an undue expansion of credit in this country, the loans will also answer to meet demands upon us for gold in the period of readjustment which will follow the war. It is recognized that we are receiving far more than



of the world's gold, according to any non-distribution and that when the war is over currencies will work for a re-distribution. go on receiving gold, and it enters into the basis of credit, it will work mischief ways: First, it will, as described above, to elevate the level of costs upon which industries are based above the level in other countries, thus making it impracticable for us to go abroad and bringing about, eventually, an unfavorable trade balance; second, when the time of payments is against us, gold will go to compelling a contraction of credits, which involves severe losses and a prolonged period of depression.

It will go out, also for another reason, together with the rest of the world suffering from a capital, and for gold to support credit, and to rest upon a relatively high basis in the States, the inducements for the use of gold as capital abroad will be very strong. At present, the international situation is bound to pull back into the normal equilibrium.

However, instead of taking payment altogether in gold and our own securities, we must pay in loans running two or three years, which loans as they expire will create offsetting financial demands upon us, and thus avert the movement of financial conditions which must result from heavy withdrawals of gold from our country. They have the same effect as if an amount of imported gold was impounded and earmarked for exportation later.

To calculate that, including the British loan included, the total of all loans to the belligerent governments placed in the United States since the outbreak of the war is \$1,778,000,000, and adding the loans to Canadian provinces and cities, which amount to \$185,000,000 and \$8,200,000 for the London water and City of Dublin loans, the total is \$1,981,800,000. Of these, however, \$156,400,000 has been repaid and been paid off, leaving the net amount of public loans to the belligerent nations at \$1,825,400,000. Besides these, there are \$156,400,000 in loans which have been made in the period to Latin America and other neutral countries. The recapitulation is as follows:

#### Public Loans to Belligerent Countries, Including Provinces and Municipalities.

Britain .....	\$ 858,400,000
France .....	656,200,000
Italy .....	117,200,000
Japan .....	25,000,000
Union of Canada.....	120,000,000
Canadian Provinces and Municipalities	185,000,000
Other .....	20,000,000
<b>Total .....</b>	<b>\$1,981,800,000</b>
Amount paid off.....	156,400,000
<b>Total .....</b>	<b>\$1,825,400,000</b>
Latin America .....	117,457,637
Other European Countries and China	39,000,000
<b>Net total foreign loans now outstanding .....</b>	<b>\$1,981,857,637</b>

## Federal Reserve Notes in Member Bank Reserves.

We have not been surprised to receive protests from quarters entitled to the utmost respect against our comments of last month favoring the use of Federal Reserve notes in member bank reserves, but we have received nothing which presents a new view of the subject. The comments of the Bulletin were written without knowledge that Mr. Warburg, of the Federal Reserve Board was about to deal with the same subject before the American Bankers Convention at Kansas City, which he did in a manner so comprehensive and convincing as to leave little further to be said.

Nevertheless, this continuing dissipation of our gold resources in face of the fact that before long we may have need of them within reach, is so serious a matter that frequent repetition of the facts is desirable. The Federal reserve system will not be adequately prepared for adverse conditions until a much larger proportion of the gold stock of the country is within its control.

We are receiving gold in enormous amounts. The movement is abnormal, and the more we receive the more certain it is that there will be a return movement after the war. Common prudence requires that we look forward to the necessity of providing gold for this outward movement.

Since the beginning of the year 1916, the Federal reserve banks have had an increase in their deposits from \$415,012,000 to \$581,900,000 and this has occasioned an increase in their gold holdings from \$344,963,000 to \$397,979,000. Besides this, by diligent efforts, but necessarily by roundabout and inconvenient methods, they have succeeded in increasing the amount in the hands of the reserve agents from \$139,940,000 to \$219,502,000. The total gain of gold in the reserve banks and with the reserve agents has been \$132,578,000, while the increase in the country's stock has been approximately \$400,000,000. Of course the free gold holdings, i. e., the amount over and above required reserves against notes and deposits, and which could be released for exportation without bringing the reserve banks below their required reserves, is very much less. These figures show that the reserve system is lacking in adequate powers to attract and conserve the gold reserves of the country. With literally a tidal wave of gold entering the country and sure to recede later, the reserve system, which should be gathering it in, is obtaining a relatively small portion of it.

Moreover, the Federal Reserve Bank of New York will have to take the brunt of the demands for export, and although it has been putting forth special efforts to hold some of the gold that has been streaming past its doors and through its vaults, its stock has increased since December 30, 1915, only from \$258,265,000 to



\$260,028,000 including the holdings of the reserve agent.

The total stock of gold coin and bullion in the United States is approximately \$2,700,000,000, and in comparison with this the amount held by the reserve banks is disappointingly small. Clearly there is something the matter with a "reserve" system which does not accumulate reserves under such favorable conditions against the time of stress when reserves will be required.

### Possible Demands Upon the Reserve Banks.

Mr. Warburg has expressed the opinion that the reserve banks ought to be able to lose \$300,000,000 to \$500,000,000 of gold and still have \$200,000,000 to \$300,000,000 of free gold against which additional notes could be issued if domestic conditions required them. This opinion should appeal to every prudent banker. The amount of Aldrich-Vreeland notes issued in 1914 was approximately \$384,000,000, and a much larger amount might be required if a really critical situation developed in the United States. Mr. Warburg showed that the additional lending power of all the Federal reserve banks, upon their present gold reserves, at an outside estimate, scarcely exceeds \$560,000,000. But if they should lose \$200,000,000 of gold by exportation their lending capacity would be reduced by practically \$500,000,000.

The effectiveness of the reserve system depends upon universal confidence in its ability to meet any situation that may possibly develop. The present gold reserves are not large enough to inspire this confidence. There should be no speculation or guess work about it. The country and the world should be able to see not only that there was gold enough in the reserve banks to meet any possible export movement, but to support any probable domestic demand for the notes.

It is said in reply to these representations that the Clearing House banks of New York have taken care of gold exports in the past and can do so again. But the Federal Reserve banks have assumed responsibility for these reserves and on the strength of their supposed resources the required reserves of the member banks in the Central reserve cities have been reduced to 18%. Moreover large withdrawals of gold from the Clearing House banks will compel a much larger contraction of loans, and one of the principal reasons for establishing the Federal Reserve system was to avoid this drastic necessity. Finally, the whole scheme of requiring the New York banks to supply the gold for an export movement resulting from international conditions broke down in 1914. The New York banks were obliged at that time to decline to supply gold to pay the debts of the whole United States, and their position was so far justified and accepted by the banks of the interior that the latter joined in contributing to a gold exchange fund. Fortun-

ately the international situation changed afterward, so that the gold fund was used in part, but the weakness of having necessities depend upon voluntary contributions was sufficiently evident. It would irreparably damage the prestige of the Federal Reserve system to have the reserve fail to meet a situation or be obliged to voluntary contributions.

## How to Concentrate Our Gold Holdings

It is a familiar fact that gold certificates are now an important part of the currency of every country. They are largely in the pockets and hoards of the people, and passing from hand to hand. They appear in all cash payments of any size. The national bank statement of June 30, 1913, shows that of the \$1,414,000,000 at that time outstanding only \$324,824,000 were held by national banks; the remainder were in the hands of other banks and in use as the common medium of exchange. That this is an ineffective use of the country's gold stock seems to be so clear that it requires no argument. The notes of the Federal Reserve banks would answer this purpose equally well, and if the gold was turned over to the reserve banks they would be immediately strengthened for the task they have to perform.

For example, on October 1st the States Treasury held approximately 1,000,000 of gold against an equal amount certificates outstanding. If these gold certificates were gathered into the reserve bank exchange for the reserve notes, these would be able, if necessary, to release 1,000,000 of gold for export and still have on hand 500,000 of gold to serve of sixty per cent. against their outstanding notes, and these changes might take place without affecting the amount of currency in circulation or disturbing domestic credit. Doubtless, if such an export movement were under way, it would be the part of prudence for the reserve banks to advance their discount rates and for member banks to encourage a reduction of loans, but it is evident that with gold reserves of such magnitude the reserve banks' issues would serve as a buffer to protect the country from a violent contraction of currency. Under ordinary conditions the gold held by the reserve banks should be above eight per cent.

## Government Should Cease Issuing Gold Certificates.

The United States Treasury now naturally into possession of practically all the gold produced in the country or imported. Producers and importers sell to the Treasury or assay offices and receive their pay in gold certificates or drafts on the Treasury. The issue of gold certificates should cease, and where paper money is wanted reserve notes should be used, but of course the Treasury notes must be made to serve every purpose.



the gold certificates now serve, including bank reserves. If this was done the gold coin and importations would naturally plate in the reserve banks, and the outgoing gold certificates would gradually find way to the same resting place, with the result that the country's stock of gold, instead of being scattered and unavailable, would be concentrated and in the highest degree effective protection of our banking system.

#### **Established Policy Elsewhere.**

There would be nothing new or experimental in this policy. It would be simply adopting the common practice of Europe. In every country of Europe gold importations go directly into the Central Bank, in exchange for bank notes, just as in this country they go to the Treasury in exchange for gold certificates. Wherever paper money is preferred to metallic coin for common use, the institution which issues the paper money comes naturally into possession of the gold stock, provided its notes are as serviceable for every purpose. This is the case throughout Europe; the notes of the Central Bank are used as till money by the other banks, and the latter are not required to carry large gold reserves.

Gold is vastly more serviceable in the vaults of a note-issuing bank than in circulation, and an outward movement is necessary and just to be found to pay the foreign obligations. The central bank is able to supply it with the least possible disturbance to financial conditions.

I have heretofore called attention to the policy of the governments of Europe in this crisis, when each nation is under pressure to make the most of its resources, in applying to the people to turn over their holdings of gold coin to the central banks and receive bank notes in exchange. In our federal reserve system we have failed to afford even the ordinary facilities by which paper currency may be obtained from the people in exchange for gold.

#### **An Unreasoning Conservatism.**

The objection offered to making reserve notes out of the reserves of member banks is that it would be pyramiding credit, but a moment's reflection will show that it is impossible to give elasticity to the currency supply except as it may be expanded and contracted. A flexible currency system, while providing adequate restrictions upon the use of credit, recognizes that credit may be safely used, and must be so if the supply of currency is to be subject to changing business conditions. In this respect the power to regulate the currency is entrusted to the Central Bank, but in this country it has been vested in the Federal Reserve Banks and Board. Evidently it would be unsafe to allow thousands of national banks to issue notes in their own discretion,

and to use each other's notes as reserves. That would be pyramiding credit in a dangerous manner. But to allow the Federal reserve banks, as public institutions under the supervision of the Federal Reserve Board, to issue notes in their discretion, has been agreed to be not a dangerous exercise of power, and for the same reason it is not dangerous to allow their notes to be used as the reserves of the member banks. The exchange of reserve notes for gold or gold certificates involves in itself no inflation, for it does not increase the supply of money in circulation. It would simply strengthen the position of the Federal reserve banks to deal with unusual conditions. With a normal reserve of 75 to 90 per cent., gold, they would be able either to increase the issue of notes for domestic use or release gold for the foreign exchanges, or do both at once, with the minimum of disturbance to the domestic credit situation. The danger of inflation lies wholly in an unwise use of power by the reserve banks and the reserve board, but they have been established for the very purpose of acting as the custodians of unusual powers. If they cannot be trusted with powers necessary to the service devolving upon them the incompetency of the whole plan must be admitted.

#### **The Supply of "Jobs."**

In a recent number of this publication the statement was made that shorter train runs on the railways would necessarily increase the number of men required in the transportation service, and compel a corresponding withdrawal of men from the productive industries. The idea that anybody should be disturbed over this effect strikes the editor of a newspaper in one of the leading cities of the middle west as most amusing. Commenting upon it he says:

"But it sure does take a New York bank to father the proposition that the creation of more jobs means national calamity."

The fact that this paragraph should appear as editorial comment in a newspaper of large circulation indicates how widespread is the view that the number of jobs is more important than the volume of product. This writer seemingly would not understand how there could be any advantage in accomplishing a given amount of work with six men if twelve men could be employed upon it. Nowhere, in his opinion, outside of a New York bank, could anybody be found who would deliberately sacrifice six jobs in this manner. Presumably he has seen no advantage to the public in the vast expenditures that have been made to improve the road beds and increase the motive and carrying power of trains. Indeed, it may be wondered whether he sees any advantage in having railways at all, for it would require a great many more men to transport the freight



of the country in wheelbarrows. What a glorious country for "jobs" China must be, where they have practically no labor-saving machinery.

This idea that jobs are of more importance than product, and that the chief problem of society is to provide everybody with a job, instead of to increase the supply of food, clothing and other desirable things, would be ridiculous if it was not so prevalent and so serious an obstacle to industrial progress.

There is a scarcity today of wheat, corn, potatoes, meats, cotton and wool. They are all bringing almost fabulous prices, but the prices cannot increase the supply, except as they may check the movement of young men away from the farms into railroading and other occupations. Wages in the cities can never advance fast enough to keep pace with the cost of living, if the movement from farm to city continues. There is a shortage of labor on the farms. It is made up in part by the use of labor-saving machinery, and what a depressing loss of jobs there was when the self-binder entered the grain fields!

In the last analysis what is wanted is not more jobs, but more things: more grain, more meat, more potatoes, more materials for clothing, more materials for houses, larger and better houses, more comforts in the houses, etc., etc., and there is no hope of supplying these wants except by more efficient industry. Instead of making each job occupy as many workers as possible, we want each man's work to be as productive as possible. If this idea, of the public interest in the multiplication of products, instead of the multiplication of jobs, could be made dominant, industry would be revolutionized. The high cost of living would come tumbling down and the problem how we can keep our factories running after the war would be solved.

We make no argument against the principle of the eight-hour day. We have said that the proper length of the working day is not necessarily the same in all industries; it depends upon the character of the work, and is something to be determined by experience and by fair negotiations. If, as may be true in many instances, the average production is not reduced by cutting down the workday to eight hours, then there is no room for argument about it. If, however, the amount of product, or of service, is curtailed, as must be the case with trainmen under the Adamson law, then the cost is bound to fall upon the rest of the community, and the question of its propriety becomes a fair subject of inquiry. Eight hours a day for a few, fixed by law, and the cost charged up to thousands who work longer hours for smaller pay cannot be regarded as a measure of justice or progress.

## Warehouse Facilities.

We have had occasion to note from time with satisfaction the progress that is being made in various sections of the country in providing improved warehouse facilities for the storage of agricultural and other staple products moving in commerce. This progress has been important in the last five years, especially so in the last two years. The experience of 1914, when the natural movement of the cotton crop was interrupted by the war, gave a stimulus to the movement in the Southern States, but the example of and the lessons derived from the modern terminal warehouses which are now in operation at several points have given the chief impetus. The advantages of a public market where these modern facilities are offered are so evident that many cities which aspire to be a central marketing place can hope to hold its own in the rivalry of the markets unless it provides modern accommodations for the business it invites. The products of the farms and orchards are for the most part gathered in short seasons. The fruits and poultry products and meats come from the producers throughout the year, but even these are offered more heavily at some seasons than others. Fruits, grains, cotton and wool come from the producers in short seasons and must be stored and carried by somebody for distribution throughout the year. It must be admitted that we have been backward in this country in making proper provision for the storage of these products. It is one of the signs of an advanced community, one of evidences of civilization, that we have secure and substantial provision of a public character for taking care of these necessities in a prudent, economical manner. The first place it is important that there shall be protection from the weather, in the second place that there shall be protection from fire, third, that there shall be responsible custody so that money may safely be loaned on the commodity, and finally that there shall be economical means of handling. There is no class of security so desirable for bank loans as receipts for this class of merchandise stored in first class public warehouses.

Memphis was one of the first cities to get off in this respect, the warehouses of the Memphis Terminal Corporation having been completed in 1913. The plant of this Corporation occupies an area of one hundred and seventy acres. The buildings are of concrete, equipped with the most extensive sprinkler system in the South and served by ten miles of terminal railroad. An overhead mono-rail system, built on a slight incline, enables one man and a mule to move 4,000 bales of cotton an average distance of one-half mile, daily. This is said to be equivalent to the work of 100 men, 100 mules and 100 drays under former conditions, when the cotton was carted to and from storage houses.



of fire is reduced to the minimum, the insurance rates are obtained, and the costs of the Terminal Corporation are as small collateral for loans.

Another splendid warehousing and terminal plant is under development at New Orleans. The system is constructed and operated by the Board of Commissioners of the Port of New Orleans, a public body created under the laws of Louisiana. The plant occupies frontage on the Mississippi river, near the heart of the city, and includes concrete and steel warehouses, a large bushel grain elevator, wharf houses, at which both river and ocean steamers may load and unload, twenty miles of railroad yards with a storage capacity for 2,000 cars, and a belt line railway giving connection with all the main lines of railway entering the city. Here is a complete co-ordination of all the agencies of transportation, with ample capacity for storage and complete facilities for handling. Runways and planes connect every part of the structure, and compresses reduce cotton in transit to the least bulk, securing the lowest freight and insurance rates. All weighers, inspectors and officers of cotton are appointed by the New Orleans Cotton Exchange and represent that body. The total public investment in this system is approximately \$5,000,000. Before the plans were adopted the latest terminals in New York, Philadelphia, Boston, Liverpool, London, Havre, Hamburg and other ports were studied. Work was begun early in 1915, and a portion of the terminal is now in use. The plan is to provide not only for the storage of our outgoing commodities like cotton, grain, but for coffee, jute, sisal and other hard package commodities.

The Port of Seattle is a municipal district controlled by the legislature of the State of Washington, under the management of a Board of Commissioners, and this Board has constructed 1913 six public terminals, including transpiers, wharves, storage warehouses, grain elevators, etc., fully equipped with all service apparatus at a cost of \$6,000,000. They are of modern fireproof type, and fortunately nearly completed in time to accommodate a flood of trans-Pacific freight moving from Seattle to Vladivostok, and return cargo from the Orient. A seven-story convertible fruit warehouse and cold storage plant, capacity 800 cars and the fresh fish storage plant, 2,000,000 pounds capacity, are under completion. The last report of the Commission says that the warehouses have been practically filled as fast as completed, the peculiar appeal being fair charges; the protection to goods; efficient service; freedom from partiality as to railroads, steamship transfer men, or shippers; and the speed and low cost of interchange of commodities with splendid physical arrangements and loading devices. For instance, salmon to

the value of over six million dollars has been handled in the present season at two public terminals."

We have heretofore referred to the new Candler warehouses at Atlanta, which are of the most approved type and already represent an investment of \$1,000,000, with plans for extensions. This location is in the heart of a great cotton-producing district, and is bound to be of great value to the producers in providing a safe, cheap place of storage, which can be used by them and by local dealers. With such accommodations the South will be able to withhold its cotton crop from the market in the crowded fall season, and sell it during the year as it is wanted by the consumers. The presence of such public accommodations, at a low charge will have a tendency to steady the price, and will give assurance to the producer that he has the benefit of the best possible facilities. Cotton held back from market in the past has usually been carried either in country sheds at the risk of danger from the weather or of destruction by fire, or in private warehouses that bore a high insurance rate. It is only two years ago that cotton was selling at six cents per pound in the Southern States while now it is approximately three times that price. Such fluctuations are not likely to occur with proper warehouse accommodations.

Several of the Southern states within the last two years have passed acts providing for bonded public warehouses, and the last appropriation act passed by Congress for the support of the Department of Agriculture at Washington, creates a system of warehouse license and inspection under that department. The licensee is required to give bond in such terms and conditions as the Secretary of Agriculture may prescribe, including the requirements of fire insurance, for the protection of those depositing commodities in his care.

All of these provisions help to perfect the organization and equipment by which commodities are moved from producers to consumers, reduce the risks and cost, and therefore are to be welcomed.

### Railway Wages in Great Britain.

While the controversy over wages of trainmen was pending in this country a dispute involving the wages of all railway employees was under discussion in Great Britain, and was settled by a compromise a few weeks later. The railways of Great Britain are being operated under government control, the government having taken them over soon after the outbreak of the war, under a certain guaranty of net returns to the companies, based upon net earnings in previous years. Whatever the government makes out of the traffic in excess of the guaranty will belong to the Treasury, and if the earnings fall short of the guaranty



the Treasury will be out by that amount. In October, 1915, the National Union of Railway Employees, through its officials, entered into an agreement with the government by which it agreed, in consideration of a bonus grant of five shillings per week to each employe, to make no further demands during the period of the war. Of late, however, the union officials have represented that they were compelled by dissatisfaction among the members of the organization, growing out of the rise of living expenses and wage advances in other industries, to demand a further bonus of ten shillings per week. To avert a strike, the date for which had been fixed, the government finally compromised upon another advance of five shillings per week all around.

The *London Times* gives the following schedule of weekly wages, exclusive of the war bonuses, upon one of the leading roads, which is said to be typical of wages upon lines running into London.

	£	s.	d.		£	s.	d.
Signalman .....	2	9	0	Stower .....	2	2	0
Passenger guard. 2	3	7		Goods porter....	1	16	0
Goods guard ....	2	1	8	Engineman .....	3	0	8
Shunter .....	2	0	0	Fireman .....	2	0	3
Porter .....	1	8	0	Ganger .....	2	8	0
Carman .....	1	16	8	Platelayer .....	1	12	0

The *Times* adds:

These figures apply to stations in London. It has also to be remembered that certain grades of railwaymen are supplied with clothing and that porters and some other grades add to their earnings by tips.

### The Problem of High Prices.

One of the causes of dissatisfaction among the railway employes, and it has been continually voiced in labor circles in England, has been the failure of the government to adopt a more comprehensive policy for the control of prices. The government took over the handling of all sugar and frozen meat importations early in the war, made extensive purchases of foreign wheat, and commandeered the necessary ships to carry its purchases, but it held back from an extension of the policy, undoubtedly from doubt of its ability to help the situation by further interference. More recently, and since the situation as to the American and Canadian crops were more clearly developed, it has taken over all the stocks of grain and flour in the United Kingdom, and assumed the entire charge of importations and distribution to retailers.

The government has explained over and over that the fundamental cause of the high prices is the war, that the effects of the war were beyond any power the government could exercise, but that it was giving the most earnest attention to the subject, and would go further whenever it could see any advantage in doing so.

Criticism is inevitable under such conditions. High prices for food and other necessities

always arouse resentment, for they are attributed to manipulation, and a great amount of misinformed and sensational writing is done to satisfy the public interest. The situation has been one of the most difficult with which the British government has had to deal. A considerable portion of the public has not only believed that it was exploited and that the government was indifferent to the situation. Certainly the latter assumption is not true, and since the rise of prices has occurred all over the world there is every reason to believe that it resulted from natural causes and was beyond control.

### A Committee on Prices.

In June last a committee was appointed by the government to conduct an inquiry into the cost of living and make recommendations. Twelve members were appointed, seven of whom were members of Parliament and five were people of reputation as economists and social workers. This committee reported on September 29th. It found that retail prices of British meat on September 1, 1916, averaged about eleven cents per pound above the level, and that on an average the cost of living in cities of over 50,000 population was 45 per cent. above the level of before the war. Clothing, including shoes, is from 50 to 75 per cent. higher. Taking into account food, rent, clothing, fuel, light and miscellaneous expenses, the committee accepts the estimate that the average increase in the cost of living for the working classes is about 45 per cent. The committee finds, is much more than the average increase of the rate of wages, although it does not take into account the increase in earnings which have resulted from the irregularity of employment, overtime, substitution of piece work for time work, and other factors which have tended to increase earnings quite apart from the increase in rates.

The committee finds, what everybody has known, that the costs of production and of doing business have increased all around. It does not find that, generally speaking, the importers and distributors of food have made unusual profits, but it does find that home agriculture has been hit by the war, and the most radical measures proposed, signed however, by only a minority, is that the government should not only regulate its purchases abroad but should regulate the prices of home production. The Committee unanimously recommend—

- The speeding up of mercantile shipbuilding.
- The extension of the restrictions on the importation of superfluities.
- The development of the Government meat policy.
- The imposition of conditions on merchants and the Government bought meat to secure sale at reasonable prices.
- The voluntary institution of one meatless day a



powering of local authorities to open municipal, meat, bacon and other foodstuff shops, retailers are taking excessive profits. Vision by employers and public bodies of their ills in favour of the lower-paid workers.

ing the facts of interest developed by the on was this: that the food consumption British soldier, whether at home or at nt was about one and one-half times that an in civilian life. The consumption of y including shoes is also much greater, the armies of the continental countries rease over normal is believed by British ies to be even greater.

ne outbreak of the war a four-pound bread in London sold at 5½ pence, and ls at 9 pence. Of this advance about 1 is accounted for by the increased freight on wheat; the remainder, 2½ pence, or rivalent of five cents a loaf above the price of 11 cents, seems to be accounted the rise of about fifty per cent. in the wheat in this country.

a surprising fact that bread at 4½ cents and is cheaper today in London, notwithstanding the high freights, than in any ty of the United States, and it is someo be considered in connection with our n to compete effectively in world mar-

kets. Retail distribution generally costs more in this country than abroad because of higher wages and more complete service, but it is a weakness in our industrial situation. It is a matter of national importance that food shall be made as cheap in the United States as it is anywhere.

### Supply and Price.

The Prime Minister, Mr. Asquith, in reply to a delegation which had urged more extensive action to control prices, said that while high prices were to be deplored, an actual shortage of food in the country would be still more serious. If there was a reduced supply of food stuffs in world markets the most important thing for England was to be assured of an ample supply of its necessities and it could not do this by regulating prices below world prices.

When there is an actual reduction of the supply below normal it is evident that consumption must be reduced. If the normal consumption of wheat is five bushel per capita, and the available supply is reduced to four bushels per capita, no increase of wages can be made that will enable everybody to have the normal portion of wheat. Either the govern-

## STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS OCTOBER 27, 1916. (In Thousands of Dollars)

SOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
and certifs. Set- und. Cr. Balances	9,764	164,189	19,443	15,736	4,395	4,183	26,396	5,003	5,937	4,101	3,582	11,272	274,001
ment Fund	15,225	13,758	1,891	11,953	18,615	2,455	22,658	6,281	4,954	11,617	10,344	2,836	122,587
emption Fund...	5	250	50	69	212	220	200	70	30	117	158	10	1,391
al gold reserves..	24,994	178,197	21,384	27,758	23,222	6,858	49,254	11,354	10,921	15,835	14,084	14,118	397,979
der notes, Silver and Sub. coin....	702	5,231	444	1,118	77	380	485	1,056	216	36	170	61	9,976
al Reserves.....	25,696	183,428	21,828	28,876	23,299	7,238	49,739	12,410	11,137	15,871	14,254	14,179	407,955
otion fund—F. R. otes.....										370	50		420
ounted, Members al paper.....	471	1,092	357	355	3,758	3,020	2,942	2,397	2,533	798	3,173	235	21,131
at in open market	10,410	24,545	12,417	6,812	1,826	3,807	6,460	5,444	3,038	2,213	710	8,403	86,085
al bills on hand..	10,881	25,637	12,774	7,167	5,584	6,827	9,402	7,841	5,571	3,011	3,893	8,638	107,216(c)
nt U. S. Bonds...	2,132	1,413	2,176	5,737	523	1,210	7,436	2,348	2,870	9,270	2,720	2,634	40,469
U. S. Treas. notes	1,000	1,205	1,174	718	1,070	824	1,517	891	700	963	705	668	11,435
Warrants.....	3,738	7,636	3,280	4,611	61	291	3,795	1,429	1,609	562	25	2,853	29,890
al Earning Assets	17,751	35,891	19,404	18,233	7,238	9,152	22,150	12,509	10,750	13,806	7,333	14,793	189,010
eserve Notes, net other F. R. Banks	1,407	10,750	520	342			1,299		817			1,711	16,846
Resources.....	1,137	1,842	1,524	1,912	372	3,798	9,569	6,323	1,523	2,287	839	2,071	33,197(b)
	125	243	77	247	53	395	424	347	39	197	1,188	373	3,708
RESOURCES.....	46,116	232,154	43,353	49,610	30,962	20,583	83,181	31,589	24,266	32,531	23,664	33,127	651,136
LIABILITIES													
aid in.....	5,024	11,909	5,224	5,994	3,340	2,479	6,679	2,794	2,605	3,044	2,690	3,921	55,703
er Deposits.....	1,668	4,178	3,919	1,399	3,904	3,487	2,453	2,646	998	826	1,826	2,678	29,982
Deposits, net.....	39,257	216,042	34,074	42,217	19,649	12,228	74,049	23,693	20,663	26,599	16,945	26,502	551,918
eserve Notes-net erve Bank a circulation.....				3,924	2,352			2,456		1,031	2,203		11,966(a)
er F. R. Banks										1,031			1,031
Liabilities.....	167	25	136		145	37						26	536
LIABILITIES.....	46,116	232,154	43,353	49,610	30,962	20,583	83,181	31,589	24,266	32,531	23,664	33,127	651,136

al Reserve notes in circulation 214,622

er deduction of items in transit between Federal Reserve Banks, 33,197, the Gold Reserve against Net deposit and note Liabilities 1.0% and the cash reserve is 72.8%. Cash Reserve against net deposit and note liabilities after setting aside 40% Gold Reserve inst net liabilities on Federal Reserve Notes in circulation 73.5%.  
maturities of bills discounted and loans: within 10 days, 16,808; to 30 days, 20,513; to 60 days, 39,062; other maturities, 30,833; Total: 216.



ment must take charge of the supply and apportion it, or there must be voluntary abstinence, or consumption must be curtailed by rising prices. The first proposition is a very difficult one to carry out, the second is too uncertain in results, the third is automatic. As prices rise a direct inducement is offered every consumer to practice economy and resort to substitutes. It is therefore in the public interest that when a real scarcity occurs prices shall rise promptly, so that the policy of economy and of substitution shall begin as early as there is evidence of a necessity for it.

#### American Prices.

When it was known that disaster had come upon the spring wheat crop of the United States and that this country's total yield of wheat for 1916 was about forty per cent. less than in 1915, the price began to rise, and much was said in British newspapers about the American wheat ring, and the heartless speculators who were putting up the price of food while other people were battling for human liberty, etc. In this country also there have been numerous comments to the effect that at least no scarcity was imminent, and therefore no excuse for so great a rise at this time. But in any country where people exercise ordinary foresight prices will go up on a shortage. In the first place the farmer who harvests six or eight bushels to the acre where he expected to get fifteen or twenty has a fair claim to a higher price, and it would certainly be an injustice to him to have the price rise after the grain had left his hands. A prompt rise of price, such as occurred this year, gives the benefit where it ought to go, viz.: to the farmer in compensation for a short crop. Moreover, if the shortage is recognized immediately, and the rise takes place at the beginning of the crop year, the supply will be made to go further, by means of economies and

substitutions and the average price for the year will probably be lower than if the situation was not understood until later.

Finally there is always to be considered the effect of the price, and of any interference with natural prices, upon the farmer and upon public policy in the future. The farmer takes his chances with the seasons, and has his good years and his bad years; his competition is with the whole world, and the chance of extraordinary remuneration is not large. An attempt to arbitrarily restrict the prices of agricultural products is likely not only to be resented by the farmer, but to influence his production of those products afterward. There was serious talk in this country of placing an embargo upon the exportation of wheat of the 1914 crop, but this was not done, and as a result of good prices farmers raised in 1915 the largest crop of wheat ever grown in this country, and the price fell from above \$1.60 per bushel to about \$1. per bushel.

The American meat packers come in for a large share of their share of condemnation for their extortionate prices. They are used to it, for they have it at home, as well as from abroad. When there is a rise in meats an outcry goes up against them from consumers, and when there is a decline an outcry comes from producers. The wonder is, if they have complete control of markets, that the prices of meats ever decline or the prices of animal products ever rise. Moreover, the moderation of their profits under such circumstances is truly remarkable. Thus the average profit of Swift & Co., on its entire sales of over \$600,000,000 in the year closed in September last was 2.8 per cent. This is the result of a business which not only enjoys the advantages of all markets, but also large sums of money borrowed at low rates, but which has developed to the highest possible degree the utilization of by-products in the manufacture of various commercial articles.

**THE NATIONAL CITY BANK OF NEW YORK**



## **“City Bank Service.”**

---

### **THE NATIONAL CITY COMPANY**

has established offices in many leading cities of the country.

At these offices will be found representatives who are thoroughly equipped to be of practical service to investors.

The range of securities offered includes investments adapted to the needs of every class of investor. Among these are United States Government and Foreign issues, bonds acceptable as security for Postal savings and government deposits; and a wide selection of Municipal, Railroad, Industrial and Public Utility bonds and short term notes.

You are invited to correspond with the nearest office or to write direct to the New York Office.

Our circular B-52 will be of interest to investors.

---

### **The National City Company**

**National City Bank Building, New York**

#### **CORRESPONDENT OFFICES**

**PHILADELPHIA, PA.**  
1421 Chestnut St.

**BALTIMORE, MD.**  
Munsey Bldg

**DETROIT, MICH.**  
Dime Bank Building

**BOSTON, MASS.**  
55 Congress Street

**CLEVELAND, OHIO**  
Guardian Bldg

**ALBANY, N. Y.**  
41 Douw Building

**PITTSBURGH, PA.**  
1018 Farmers Bank Bldg

**BUFFALO, N. Y.**  
Marine Bank Bldg

**WILKESBARRE, PA.**  
Miners Bank Building

**SAN FRANCISCO, CAL.**  
424 California St.

**WASHINGTON, D. C.**  
717-14th St. N. W.

**LONDON, ENG.**  
3 Lombard Street





1916

## Economic Condition Governmental Finance United States Securities

### General Business Conditions.

**T**HE marked feature of the past month has been the rise of wages, raw materials and food products, placing the industries of the country upon a still higher level of costs, and, of course, accompanied by higher prices for all goods. Perhaps it would be more accurate to place the incessant demand for finished goods first in order, as the cause of all the other phenomena, but the influences act and react upon each other. The essential fact is that the pressure for goods of all kinds is greater than ever before known, that all the means of production are crowded to the limit, and that there are not enough goods to go around. Under these conditions there is probably an extra demand, as there was for a time last spring, due to apprehensions that supplies will be short and prices still higher in the future. This was evidently the case for a time in the coal situation, which has since eased noticeably, although there is still anxiety about the supply, on account of the car shortage rather than a shortage of coal at the mines.

The newspapers are filled with resolutions of denunciation and demands for investigations, with little recognition of the fact that there is no remedy for a scarcity except by eliminating a portion of the demand; and, that short of an official regulation of consumption, such as has been adopted in Europe, there is no way of reducing consumption or of shifting it to substitutes, but by the influence of higher prices. They should serve an economic purpose by compelling more careful use, a study of substitutes, and by giving a stimulus to production in the future. Unfortunately it is true that this remedy is harder upon those who are forced to economize than upon those who are able to buy what they want at any price; but any regulation that materially reduces consumption must accomplish its chief effects through the great body of consumers. The task of putting all the people of the United States on rations is too formidable to be attempted, and there does not appear to be any better way of dealing with the situation than by allowing natural forces to work out their results. The boycotts which have been declared,

whether justified or not as punitive measures, will be effective in so far as they reduce consumption.

### Stimulating Production.

One of the results is that a much larger area has been sown to wheat this fall, and it is able to hear that the plant is going in for winter in exceptionally promising conditions. Manufacturers of equipment for canning factories report an exceptional demand for machinery, due to the stimulus given to the canning industry by the present high prices. In many lines of industry the same situation exists, and the prices of goods for immediate consumption are increased by demands for construction work which will eventually enlarge the supply. The cost of all steel materials advanced just now by the great amount of equipment wanted for the enlargement of works. These enlargements are being postponed along in hopes that they will be completed in time to get the benefit of the present market, and some of them are already coming into operation.

It would seem that the point must be reached where all construction work not of immediate necessity will be held in check by the high costs. Upon general principles, it appears a very doubtful policy to put capital into construction under present conditions. Certainly it is now in the interest of stability in industry to postpone every dollar's worth of work than can be postponed shall be postponed. It is only a question of time until the point is reached where demand will bring demand under control, and increased production will overtake and pass it. Untold stories have been repeated, there will be a story then of idle plants and unemployed workers. It is said that the late advance of \$5 per ton for steel rails was adopted in the hope that it would hold purchases in check and allow the makers to handle the demand for products and bring very much better profits than rails can bring at this price.

The situation is one that calls for patient common sense. The business of the world has been disorganized and thrown out of customary channels by the war, and there is no power

NEW YORK, DECEMBER 1916



to prevent the ill results. They will rely on themselves by natural processes more surely than any can be remedied by any authority possibly the government.

### **Industries Busy.**

Industries are generally sold so far ahead that they have little concern about next year's activity. A great deal more foreign business might be had if early deliveries could be made. The ship yards are counting on three years of great activity. The railroads have little new equipment in the years of low prices, and held off as long as possible against the high prices, but they are now crowding equipment companies with orders. The textile mills, despite the very high prices of wool, are driven to capacity, and fully sold. It is said to be very difficult to get ordinary quantities for any satisfactory delivery. Raw cotton is above 20 cents per pound, and the wool market is even more serious, as the Australian wool, except for a low grade, is entirely withdrawn from market. The United States has been heavily in South America, and the crop in the western states, which will not be ready from the sheep until four or five months later, is already being contracted for at 10 per cent. above 1916 prices.

The high prices for copper, lead, zinc and silver are stimulating an increase in their production, and indicating very prosperous conditions in the mining districts.

The live stock markets are steady under large supplies. Cattle are being marketed in large quantities in a half-fat condition, showing that the shortage of feed is a deterrent to proper finishing. This is keeping prices for the present below what they would normally be with high-priced feed, but it means that good beef will be higher in price, at the time when these cattle would be ready for the market. The hog supply is large, with prices at about \$10 per hundred in Chicago, and product moving rapidly to market. This year's hog crop has been very profitable to producers. The potato crop is short, the result that farmers favored with a good crop have had something better than a munitions

### **The Labor Situation.**

The labor situation has been inevitably strained by the rise of living costs, and it is a serious question that more than six months must yet be required before the measure of the next crop can be known. The steel and textile industries, two of the greatest employers of labor in the country, have wanted a ten per cent. increase in wages for the first time since January 1, 1916, and wage increases are general. Employers admit both the necessity and necessity of this policy. They are anxious, willing to pay more, and eager to get their plants to capacity. The situation is

interesting from an economic standpoint as showing the inevitable reaction upon wages when capital is prosperous, but there is no little anxiety as to what the attitude of the wage-earners will be if conditions after the war will not allow the payment of such wages.

The controversy between the railway companies and the trainmen has been revived by the action of the companies in bringing suit to obtain a judicial interpretation of the Adamson act. In a case brought before Judge Hook, of the United States Circuit Court, at Kansas City, he gave what he admitted to be a hurried opinion, in order that the case might be expedited to the Supreme Court, holding that the law was unconstitutional. The case will be argued at once before the Supreme Court, and it is expected that a decision will be obtained before January 1st, when the law, by its terms, is to take effect. If it should be found invalid, the situation will be what it was before the law was hastily passed under the threat of an immediate strike, except that there has been an opportunity since then to take the opinion of the country upon it. There can be little doubt that the judgment of the country has been unfavorable. The members of Congress who voted for it have commonly justified themselves by the plea that at the time it was the only alternative to a suspension of railway service. It is not likely that so complete a surrender to the power of a few men will occur again. In the long run the interests of the public, rather than the interests of either railway owners or railway employes, are bound to determine the conditions upon which the railways shall be operated. The railway employes as a class will surely agree to the justice of this when they consider it fully.

It is quite possible that the companies and men may get together upon a settlement while the case is pending, and if not, it is probable that the President's recommendation for a law similar to the Canadian arbitration act, which forbids a strike upon railways until a government inquiry has been held, will be carried out. In asserting a right to tie up the commerce of the country by concerted action the trainmen have been led to take a position that cannot be sustained. The difference between an individual's right of action and the right of combination is the basis of all the anti-trust legislation.

### **Foreign Trade and Exchange.**

Foreign trade continues at about the level of recent months, our exports being limited by our inability to supply the products of all kinds that the world would gladly buy. The net credit balance on merchandise exports and imports in October was \$314,200,000. For the ten months of the calendar year the balance is \$2,434,000,000, and for the twelve months ended with October \$2,793,200,000. The net importations of gold from



January 1st to October 31st were \$378,958,000, and for the twelve months from October 31, 1915, to the same date 1916, they were \$469,800,000.

Under the present state of trade, foreign loans or gold importations are continually in order, and while all recent loans have been readily taken, the volume of payments is so great that it is not easy to arrange credits fast enough to meet them, although the opinion is general that it would be better for this country to take settlement in this manner than with gold. Moreover, since the gold importations have gone largely to the interior, while the loans are placed mainly in the East, gold importations are necessary to provide base for the credits.

The gold reserves of Great Britain, France and Russia before the war, at the statement nearest October 31st, and at the date of the latest available return, are given below:

	July, 1914	Oct. 31, 1916	Nov. 23, 1916
Bank of England .....	\$183,000,000	\$272,000,000	\$282,000,000
Exchequer note reserve .....		142,500,000	142,500,000
Bank of France .....	828,000,000	849,000,000	790,000,000
Bank of Russia .....	800,000,000	779,000,000	775,000,000
Total .....	\$1,811,000,000	\$2,042,500,000	\$1,989,500,000

Besides the foregoing, the Bank of France reported on November 23rd gold holdings abroad of \$215,000,000, and the Bank of Russia reported large balances abroad. These may, in part, consist of gold contributed to the allied pool, but in the case of Russia, if not both, they include credits created by loans. There is no question that the allies have a stock of gold that is not included in the bank statements, for the statements from week to week do not reflect the shipments to this country. There is also presumably some gold remaining in the joint stock banks of Great Britain. Altogether, the total gold holdings of the three allies are well above \$2,000,000,000.

Since May, 1915, the people of France have turned into the Bank of France over 1,800,000,000 francs of gold coin, the equivalent of over \$360,000,000, in exchange for bank notes, as a voluntary contribution to the financial strength of the country.

#### The Gold Standard.

There is no reason at present for anticipating any change in the policy of the Bank of England in regard to gold payments, and the sensational speculation as to the possibility of the allied countries abandoning the gold standard are almost too preposterous to be discussed. Great Britain, at the end of this war, will be still the greatest creditor nation in the world. Her loans to her allies, from April 1st to October 7th of this year, as stated by Mr. Asquith in the House of Commons, on October 11th, aggregated £253,-

000,000, or approximately \$1,265,000,000, undoubtedly exceeded her borrowings and her sales of securities in the same period. In other words, even now she is increasing her credit balance in her relations with the rest of the world. All those relations, including her position of London as the world's clearing house, her place in world trade, are pivoted on the gold standard. Even if she should follow the example of Germany and France, and suspend gold payments, it would not signify abandoning the gold standard or any loss to her credit. It would mean that she would have to do international business at somewhat greater inconvenience and cost, and at a temporary disadvantage in competition with New York, but it would not be one of the unavoidable costs of the war.

Meanwhile we repeat that there are no signs that London is contemplating a suspension of gold payments, and we shall not believe that gold is going to occur until it does occur. The gold taken out of the ground annually in this territory amounts to \$300,000,000, and this can only be supplemented with \$100,000,000 from the allied reserves to cover shipments to this country equal to those made by the United States. It is to be hoped that the United States will be required to receive more than \$500,000,000 in gold per year in addition to its own production.

A moderate overflow of gold is now taking place from this country to South America and Asia. Exchange conditions are making it possible to send the metal to Buenos Aires in considerable amounts, and it is moving as fast as practicable, the amount of insurance upon shipments being limited. So far, about \$500,000 has gone to this destination, with the balance to other South American countries.

Japan, which is under a great stimulus from Russian war orders, has been gaining small amounts from the United States, and larger amounts from other sources, possibly from Russia. It has been able also to hold its own in the production, which amounts to about \$7,000,000 a year, including that of Korea. The Japanese have made a net gain of a little over \$1,000,000 of gold since the war began, having a considerable amount at first.

#### British and French Treasury Bills.

The British and French governments have both determined to try this market with short-term Treasury bills, which have been a popular form of loans in London and Paris. As offered in those cities they have had long runs running from ninety days to one year, but the bulk of them have run ninety days to six months, with rates varying to suit the market. An astonishing amount of the British Treasury bills have been absorbed in England, and the



right freely in Holland and the Scandinavian countries, their popularity resulting from the fact that the short maturities keep the investment within reach of his capital and enable him to convert it readily into something else if he wishes to do so. As they mature they are paid to the lender either keeps his money or buys something else.

The first long-term loan issued by the British Government was that of June, 1915, payable in 1945. This loan bears  $4\frac{1}{2}$  per cent. and the total issue under it was about \$4,000,000, including the conversions of consolidated  $3\frac{1}{2}$  per cent. bonds, which were authorized under it. It was supposed at that time that a further permanent loan would be brought out in January 1st, 1916, or at the latest immediately after the close of the fiscal year, 1915-16. However, the offerings of short-term securities, principally Treasury bills, were so successful that no additional loan has been yet authorized. The total amount of Treasury bills outstanding is now above \$5,000,000,000, and the rate of interest upon all maturities is  $5\frac{1}{2}$  per cent., or practically the same as the London discount rate on prime commercial bills. The rate on these in popularity on the London market is the 6 per cent. Exchequer bonds, 1920.

The French Treasury has found the French public likewise favorable to shore obligations and has replaced them in large amounts. This experience in London and Paris has prompted the United States which are contemplated in this country. There will be of varying maturities to suit the needs of investors, payable in this country in dollars and free from all taxation by the issuing governments. No collateral security will be given and it is believed that they will be taken in large amounts as a convenient, safe and remunerative method of investing funds which are hitherto idle, and which owners may wish to have quickly available.

There is no doubt in the minds of well informed people that the British and French governments will meet all of these external obligations in full and with scrupulous punctuality. It should be always remembered in considering the financial indebtedness of these countries that their internal indebtedness, while indeed a burden, is a source of revenue. It is taxable, like real estate and other forms of private property, while the external indebtedness is not. Whatever questions may be about the ability of these governments to pay their debts will be settled eventually by the means of the taxing power. The internal debt will not be repudiated, but the taxation will be very heavy. It can be just as heavy as necessary to enable the Treasuries to pay out, but it does not apply to the external debt.

## Statement of the Federal Reserve Board.

The Federal Reserve Board has issued a statement expressing the view that Treasury bills issued by countries engaged in the war are likely to prove, when collectively considered, an unliquid asset in the hands of American banks, and that such holdings, if large, may eventually interfere with the accommodations which the banks are under obligations to give to the home public. It therefore disapproves of them as a form of investment for banks.

The statement is of such importance that we give it in full elsewhere. With the opinion of the Board as to the importance of keeping the banks in liquid condition and of not loaning down to the legal limit, we are in entire accord, but there are certain phases of the subject upon which some further comments may be properly added. The statement says:

The board does not share the view frequently expressed of late that further importations of large amounts of gold must of necessity prove a source of danger or disturbance to this country. That danger, the board believes, will arise only in case the inflowing gold should remain uncontrolled and be permitted to become the basis of undesirable loan expansions and of inflation. There are means, however, of controlling accessions of gold by proper and voluntary co-operation of the banks, or, if need be, by legislative enactment. . . . It will then appear that while a large increase in the country's gold holdings has taken place the expansion of loans and deposits has been such that there will not remain any excess of reserves apart from the important reserve loaning power of the Federal Reserve Banks.

The nub of this discussion is in the last sentence of the extract, where recognition is given to the fact that although there has been a large increase in the country's gold holdings, there has also been a very great expansion of deposits and loans. This is what always happens when the supply of money is increased. Loans and deposits created by loans, follow right up after it until the capacity for credit expansion is exhausted. According to figures given by the Comptroller of the Currency, the loans of all banks in the United States increased between June, 1914, and June, 1916, by approximately \$2,500,000,000, which is far beyond any previous expansion in our history. There is every reason to believe that continued additions to our monetary stock will have similar effects.

There were never greater temptations to the use of money and credit than in this country today. The demand for products of every kind exceeds the supply, and profits are such that there are very great inducements to individuals to enlarge their operations, or to buy into properties and companies that are making large earnings. These are the conditions which in conjunction with easy money have always produced over-expansion and subsequent disaster.

The Board admits that this danger will exist



"in case the inflowing gold should remain uncontrolled and be permitted to become the basis of undesirable loan expansion and of inflation."

There is no practicable way of controlling the money supply of this country. That idea may well be allowed to remain the exclusive possession of the trust-busters. The importations of gold go into the banks, but they go in as deposits, and the lending or purchasing power remains first of all with the depositors. It is possible, and we believe desirable, to collect this gold into the Federal reserve banks, but if the reserve banks acquire it they must give either their notes or an equivalent credit on their books in exchange. A credit at a reserve bank is a basis for loans in a member bank, the same as gold in the latter's vault. Up to the limit of the lending power of the member banks the reserve banks have no control over the expansion of credit; it is only as the member banks desire to re-discount that any restraint can be placed upon them.

What degree of co-operation does the Board expect to obtain among 27,000 banks? Can it persuade them to stop competing with each other for business, or restrain their eagerness to accommodate desirable customers, and to stop paying interest on deposits? The command over bank deposits is not final in bank officers. It rests at last with bank patrons, and when bank patrons want to expand loans they are usually able to do it.

It is said that money will burn a hole in a boy's pocket, but it will likewise burn a hole in a man's bank account or a bank's vault. A boy is not more eager to spend money than the average man is to make money, or the average bank is to keep its funds employed.

The City Chamberlain of New York invited proposals from the banks for the city deposits for three months, beginning November 1st last. In announcing the result this official stated that the bids ranged from two to three per cent., and that there were more bids above two per cent. than ever before, this in a low money market. Competitive bidding for deposits compels the employment of the deposits.

For years before the Federal Reserve System was established, the banks of the Central reserve cities were regularly lectured upon the importance of keeping larger reserves, and individually they assented to the criticism, but competitive conditions controlled them, and the force of competitive conditions must be recognized at all times. If gold continues to come into the country we must expect that somebody will put it to use, at least so long as the conditions for profitable use are as favorable as now. And once it is engaged as the basis of credit it cannot be removed without tearing down

the whole fabric of credit and business upon it.

It is true that the banks have an opportunity to support the regular business of the country by providing merchants, manufacturers, and farmers with credit as they need it. The amount of money and credit required to support the legitimate expansion of industrial and trade is limited. When all the productive forces of a country are already in full employment you cannot enlarge their powers by increasing the stock of money. Attempts to put more money into use at such a time can only create new demands for labor and materials when no more are to be had, with the result that wages and prices will rise and new supplies of money are absorbed. The same amount of business as before the war this carries the country constantly far beyond normal conditions, and involves a menial future.

The country is now at the very top of industrial activity, and there is no reason to believe that more gold will be received to finance legitimate expansion. More gold, however, is certain to come and the credit which will be thus created will prove to be used somehow. How may they be used for the good of the country, and with reference to the probability that after the war a large part of this gold must be returned to Europe?

It is generally recognized that the United States cannot expect to retain its pre-war portion of the world's gold after peace is restored and industry has been re-established in Europe. All of the influences that are now at work to distribute the supplies of gold among various countries, according to their needs for capital and for commercial credits, are operative again. The members of the Federal Reserve board have individually emphasized the importance of preparing to relinquish a large amount of gold, in order that it may be distributed with the least possible disturbance to the money market in this country.

It is not a question of whether our supplies of money and credit shall be in the form of liquid domestic loans or unliquid foreign loans; the choice is rather between unliquid domestic loans and liquid foreign ones.

It is always good for a bank to keep its resources. Why? In order that it may have resources to meet any demands that may come upon it in the future. From what quarter will the most serious demands likely to come upon this country in the near future? Will it be a question of the ability of the Federal Reserve system to take care of any home demand for note-issuing powers gives ample protection against these. But even the reserve



guine that the gold resources of the re-  
banks are equal to the possible demands  
d for exportation. These Treasury  
wever, falling due at consecutive dates,  
ve as offsets for equal amounts of gold.  
as any are held in this country they  
e control over the gold situation.

ollowing extract from a recent public  
by one of the members of the Federal  
Board is in point:

ould not overlook the extraordinary ability of  
ry to protect itself against any violent loss of  
sing for this purpose some part of the exten-  
ings of European securities which we have  
acquired. The great extension of the inter-  
oan market, which has been one accompani-  
the war, is certain to result in a greatly  
use of acceptable securities as a means of  
nal payment and as a substitute for gold in  
international settlements."

short-term bills answer this purpose  
han bonds running a term of years.  
er are only realizable before maturity  
n a foreign market, subject to its con-  
nd fluctuations, while the former must  
or replaced in this market upon terms  
ory to the American buyer. The bor-  
governments will protect themselves  
extreme fluctuations in the rate by a  
of gold in Canada, to be used as needed.

the abstract opinion that the banks of  
ntry ought not to tie up an undue  
their resources in foreign Treasury  
any one class of paper, no issue of  
an be taken. A national bank is pro-  
by law from lending more than ten  
of its capital and surplus to any one  
r, and although the Comptroller has  
at this does not apply to the obliga-  
governments, we regard the rule as a  
e to follow upon general principles.  
t is more than a bank is likely to lend  
ower who has no claims upon it for ac-  
tions. The purpose of our comments  
to present the views of those who hold  
e is danger in continued accumulations  
and that short time obligations which  
e as offsets to foreign demands for gold  
in the not distant future an extremely  
class of assets.

## and Banking.

y tightened perceptibly in New York  
he last half of November, due to the  
ank reserves. In part this is attribut-  
the payment of deposits into the Fed-  
erve banks on the 16th, but it is the sea-  
e year when the country normally draws  
York. The loans, deposits, reserves and  
reserves of the sixty members of the  
House on the 4th and 25th of last month  
November 27th, 1915, are given below:

	1916 Nov. 25	1916 Nov. 4	1915 Nov. 27
Loans .....	\$3,415,522,000	\$3,357,047,000	\$3,133,235,000
Demand de- posits .....	3,351,975,000	3,359,725,000	3,216,626,000
Cash reserve...	398,087,000	474,675,000	521,335,000
Reserve in de- positories ...	237,649,000	229,297,000	218,109,000
Surplus re- serve .....	58,647,000	124,107,040	183,477,000

These figures show why call money has gone  
to six per cent. in the last week. They also  
show that although gold importations ex-  
ceeding exportations by over \$400,000,000 have  
been received at New York in the last year the  
cash reserves of the clearing house banks have  
actually been reduced in the sum of \$123,248,-  
000. The cash holdings of the Federal reserve  
bank of New York have increased in the same  
time by only \$7,176,000, showing that all the  
gold which has been imported, and much more  
besides, has gone to the country.

From June 1st to November 27th the clear-  
ing house banks had a net loss on daily settle-  
ments of \$148,987,000 to the Federal reserve  
bank and \$130,565,000 to the United States  
Treasury, or \$289,552,000 to the two institu-  
tions. Besides this they have shipped impor-  
tant amounts direct to their correspondent  
banks.

The main factor in this shift of money from  
New York has undoubtedly been the increas-  
ing absorption of money in the trade of the  
country and the need of the interior banks for  
higher legal reserves. The Comptroller of the  
Currency reports \$896,635,000 of surplus re-  
serves in all national banks on September 12,  
1916, which compares with \$882,850,773 on  
September 2, 1915. This would indicate that  
the system had just about absorbed the credit  
which could be based upon the additions to the  
money supply. But while the excess reserves  
are slightly larger than a year ago, their location  
is different and shows that the country is more  
closely loaned up than a year ago. The surplus  
last year and this year was held as follows:

	1915 Sept. 2	1916 Sept. 12
In vault and Federal Reserve Bank.....	\$341,206,988	\$178,499,000
With approved reserve agents .....	541,643,784	718,136,000
Total .....	\$882,850,772	\$896,635,000

It will be seen that at the later date there  
was a smaller surplus of cash on hand and in  
Federal reserve banks, and a larger surplus  
with approved reserve agents.

In connection with the increase of deposits  
with reserve agents it is to be considered that  
all deposits have increased largely since a year  
ago, and that the limit of legal reserves kept  
outside of the Federal reserve banks has been  
lowered. When the transfers to the reserve  
banks have been completed all reserves outside  
will be "surplus."

The reserve percentages held by the three



classes of national banks on September 12th, 1916, together with the figures for the required reserves are given below:

	Actual reserves per cent.	Legal reserves per cent.
Central Reserve City Banks..	20.39	18
Reserve City Banks.....	24.80	15
Country Banks .....	26.62	12

These figures taken together show that while the reserve city and country banks have large surplus reserves with the central reserve city banks, the latter are well loaned up. The resources of the Federal reserve banks have been only slightly drawn upon. The country banks will probably draw down these balances in the reserve cities much more before they resort to the Federal reserve banks, and as they do so the banks which lose cash will have to reduce their loans unless there is an inflow of gold sufficient to offset the withdrawals. No doubt the inflow will continue, for the balance of trade in our favor is enormous, and Great Britain and her Allies are not only obliged to pay for their purchases in some form but interested in keeping the New York money market in easy condition.

The demand for money for current trade is probably now at its apex. The crops have largely passed from the hands of producers, and are concentrated in hands where they must be carried until distributed. On account of the high prices, the amount of bank credit required is extraordinarily large, but there will naturally be a relaxation in this demand after the first of the year.

The total stock of money in the country according to Treasury estimates increased in the sum of \$528,730,109 from October 1, 1915, to October 1, 1916, and the cash holdings of all national banks declined from \$719,843,506 on September 2, 1915, to \$663,522,000 on September 12, 1916. On the other hand the cash reserves of the Federal reserve banks and reserve agents increased in the same time from \$382,521,000 to \$719,425,000, or by \$336,954,000. It is an interesting fact that the reserves of the twelve reserve banks now exceed the vault holdings of all national banks.

The most important items of assets and liabilities of national banks on September 2, 1915, and September 12, 1916, are shown below:

ASSETS:	1915 Sept. 2	1916 Sept. 12
Loans and discounts....	\$6,756,680,004	\$7,859,837,000
United States bonds....	781,726,220	729,777,000
Other bonds and securities .....	1,219,214,503	1,624,627,000
Due from approved reserve agents .....	811,379,578	936,339,000
Due from other banks and bankers .....	597,832,441	780,600,000
Federal reserve notes...	6,779,935	13,190,000
Total coin and certificates .....	719,843,506	663,022,000
Legal tender notes....	122,765,379	105,101,000
Due from Federal reserve banks .....	315,409,198	531,028,000
Customers liability under acceptances .....	16,461,341	77,879,000
Total assets.....	\$12,267,090,429	\$14,411,537,000

#### LIABILITIES:

Demand deposits.....	\$5,426,610,208	\$6,700,000,000
Time deposits.....	1,335,572,505	1,730,000,000
Bills payable .....	60,169,307	30,000,000

#### A Chinese Loan.

The Continental and Commercial Bank of Chicago, has made a loan of \$5,000,000 to the Republic of China for general government purposes, and the offering has been taken by the American market. The active participation of Chicago in the promotion of foreign investments is a very encouraging feature of the time. The Middle West has been in comparatively recent years a great market for our home securities, and it only needs to be made familiar with the idea of foreign investments will bring to American industry, and come a liberal buyer of foreign securities. The means of foreign investments at this time are possible to open permanent channels for the export of American products, which will be very useful after the war, when we may need additional business more than we do now.

We cannot as a country rise to this opportunity unless all sections are actively interested in the educational propaganda that is required. There is no danger of not having enough foreign business to go around. There is an indefinitely endless opportunity for development of work in China alone. A distinguished Chinese statesman, Marquis Inouye, late ambassador to Great Britain, referring to the rivalry of Japan and the United States in China, said that for Japan, with the amount of capital it can spare, to expect to alone develop the resources of China would be like trying to smelt a ton of iron ore with a candle. The trouble is not to find opportunities for the investment of American capital, but to find American capital that will go, and more banking institutions, in different parts of the country, there are interested in promoting the movement, the easier it will be for them.

#### Summary of Bond Market for November

Additional financing by foreign governments has been the feature of our bond market for November. The Russian government has issued a new \$50,000,000 5½% five-year Loan in this market, going to the price of 94¾ to yield 6.75%. The bonds are payable in New York in gold dollars or at the option of the holder in Petrograd at the current official rate of exchange at sight on New York.

A \$60,000,000 French Municipal Loan has been offered. The loan is divided into three amounts among the three cities of Bordeaux, Lyons and Marseilles. The bonds are payable in year 6's offered upon a 6.75% basis at the option of the holder in



or in France at the fixed rate of 5.60 per dollar. The French government asks to furnish, if necessary, gold to free cities to the amount needed to pay in New York.

Issue of \$3,800,000 City of Montreal forty-% sinking fund bonds has been offered all taken, on a 5.05% basis.

demand for United States municipal ist- at are tax exempt continues very strong erings are quickly absorbed. The gen- and market has remained active through- month with a light advance in the level es. The demand from private investors titutions has been heavy. Some con- e issues like Lackawanna Steel 5's of nd Chile Copper 7's of 1923 have had e advances in sympathy with the rise in cks of those companies. The average olume of sales on the Stock Exchange lose of business on the 25th inst. was 000, compared with \$5,358,000 in Octo- \$3,885,000 in September.

American Telephone and Telegraph ny has announced its plan for refinanc- \$50,000,000 notes due February 1, 1918, r meeting capital expenditures in the ture. It is proposed to issue \$80,000,000 ear collateral 5% bonds and to offer \$40,000,000 new stock to stockholders at

York bankers are publicly offering \$10,- 0 Western Pacific Railroad First Mort- y thirty-year bonds at 90 to yield 5.70%. he close of the month an offering is be- ade of \$12,800,000 Seaboard Air Line y First and Consolidated 6% Bonds due t 99½. These bonds are secured by a ortgage on 416 miles of road, including w important line from Hamlet, N. C. arleston to Savannah, Georgia. The has undergone a remarkable develop- both agriculturally and industrially in t decade. The Seaboard system is nat- sharing in this increased business. For scal year ended June 30, 1916, gross e increased 12% over that for the pre- year and gross income 28% over that for cal year 1915.

### Shipbuilding Industry.

eral months ago a brief account was given se columns of the organization of the can International Corporation by interests can with this Bank, and of enterprises it had become interested in the first six s of its career. It will be remembered had taken a substantial interest in three g companies, viz.: the International Mer- Marine, Pacific Mail and United Fruit. was giving a preference for shipping not ally contemplated, but due to the unusual

importance at this time of shipping accommoda- tions to the foreign trade, and the opportunities that happened to offer.

In line with these investments and following them naturally has been the acquisition of the American Shipbuilding Co. of Camden, New Jersey, by the American International Corpora- tion, together with the International Mercantile Marine Company, the Pacific Mail Steamship Company and W. R. Grace & Company.

The American Shipbuilding Company has a comparatively new plant and one of the most ef- ficient in America. It is equipped for the build- ing of steel vessels, both mercantile and war, and of various essentials to shipbuilding, such as marine engines and boilers, and recently made the record of building a 7,000-ton dead weight freighter and having the trial run in three weeks. The present capacity of the plant is 100,000 tons per annum, and this will be enlarged at once at least 50 per cent. It is proposed to organize a new corporation of larger capital, a majority of the stock in which will be owned by the above- named companies, but an offering will be made to the public. The contracts taken over, to- gether with the repairs and new vessels required for the fleets of the shipping companies purchas- ing the yards, will give the company plenty of work for the next five years.

### Jobs, Product and Distribution.

In the November number of this publication reference was made to an editorial critic who had voiced the familiar but mischievous view, that the wage-earning class would be benefited by in- creasing the number of people required to do a given amount of work. We have no wish to maintain a controversy with an individual or a newspaper, but sometimes an issue is more clearly defined by allowing a representative advocate of a certain theory or doctrine to state it in his own language. In this case the editorial utterance ap- peared not only in one newspaper of large circu- lation, but in an important group of newspapers belonging to a syndicate, all published in impor- tant cities, and having an aggregate circulation of hundreds of thousands. It is the fact that these views are thus widely dissiminated that we deem it of chief importance, and leads us to make further comment.

The original quotation from the newspaper editorial was the following sentence:

"But it sure does take a New York bank to father the proposition that the creation of more jobs means national calamity."

Our comment was practically summed up in the following:

In the last analysis what is wanted is not more jobs, but more things: more grain, more meat, more potatoes, more materials for clothing, more materials for houses, larger and better houses, more comforts in the houses, etc., etc., and there is no hope of supply- ing these wants except by more efficient industry. In- stead of making each job occupy as many workers as possible, we want each man's work to be as productive as possible.



The editor now makes a rejoinder aimed at all the economists since Adam Smith, and the substance of it is given below:

It is on the basis of [Adam] Smith's philosophy that the City Bank stands now in declaring that "to increase the supply of food, clothing and other desirable things," is more important than jobs.

What the City Bank does not see or will not see is that the distribution of the food, clothing and shelter is of infinitely more importance. The Mercantilists mistook money for wealth. Smith set them right. Now the economists mistake wealth for happiness!

What good are food, clothing and shelter unless used to produce the only commodity worth while—human happiness? If we pile up all the wealth in the hands of 2 per cent. of the population—which, according to the industrial relations commission, now has possession of 60 per cent. of all the wealth of the United States—how do we forward the real business of life?

The above presents the gist of the common-argument against the existing order of society. The statement has been often made that two per cent. of the population owned some large proportion of the wealth, and it is proper to say in the first place that there are no authoritative figures for such statements. The census bureau has never made a calculation of this kind, and the report of the Industrial Commission is not an authority for anything.

The essential point, however, is that the people who use this argument all assume that two per cent. of the population consume sixty per cent. of the food, wear sixty per cent. of the clothing, monopolize sixty per cent. of the shelter, and enjoy sixty per cent. of the comforts and pleasures of life, whereas a moment's thought ought to show that this is a fallacy. It is absurd to suggest that two per cent. of the population eat sixty per cent. of the wheat crop, or sixty per cent. of dairy products, or sixty per cent. of the meat or fruit production, or buy sixty per cent. of our textile or other factory productions, or use sixty per cent. of the timber output or sixty per cent. of the coal and other mineral production, or even own sixty per cent. of the automobiles. Two per cent. of the population do not have sixty per cent. of the railway, telephone or telegraph service, or supply sixty per cent. of the attendance in places of amusement and recreation; nor do they buy sixty per cent. of the books and newspapers printed, or receive sixty per cent. of the medical and surgical attendance, or absorb sixty per cent. of the benefits from schools.

The real distribution of wealth and of the benefits of industrial progress takes place in the consumption and enjoyment of these and similar things. They are the final proceeds of all our productive activities. Who gets them?

#### Two Classes of Wealth.

It is important in considering distribution to distinguish between the two general classes of wealth. There is, first, the class which includes all the things which minister directly to our needs comfort and culture, such as dwelling houses, furnishings, food, clothing, fuel, means of trans-

portation, libraries, schools, medical attention, etc., and, second, there is the class which comprises the various kinds of property which are mere agencies in producing the things of the first class. Land, factories, machinery, equipment of all kinds are of the second class. Railways and ships belong in a degree to the first class, but their main service is as agencies for the business community, and in this respect they belong to the second class. The great figure in the amount of wealth in the hands of a few is almost entirely to wealth of the second class. It is permanent property, which, with some deterioration, endures and is added to from year to year, while the consumable products and services which it yields figure very slightly in statistics of wealth or not at all.

This property of the second class has no value in itself. Its value is all derived from the products or services that flow from it, and if they are not distributed to the owners alone, it is a fact singularly overlooked by the people who write most incessantly about distribution. They assume that the benefits of productive property go exclusively to the owners. Their arguments like the one above, are based upon that hypothesis. But will anyone attempt to maintain that a farmer has ever derived any benefits from the development of the steam engine except the ownership of steam engines? Does nobody have any good from railways unless he owns railway shares, or from the growth of the textile industry unless he owns mill shares? Is there no value in agricultural machinery except to farmers?

The last twelve months in which railway statistics were unaffected by the war, and for which figures are available, were of the year ending 30, 1914. In that year the total operating revenues of all the railways of the United States were \$3,029,914,285, and of this amount \$843,814 was disbursed as interest on borrowed money and \$205,914,908 was disbursed for dividends, or a total disbursement on account of ownership and the use of capital of \$613,729,822. Evidently the benefits accruing from the ownership of railway property are insignificant compared with the benefits accruing to the community from the use of the property. Every person who directly paid a railway charge was presumably a gainer by the service, but they were only a small part of the people who were gainers by the transportation service. The entire system of industrial changes is dependent upon it, and all the people to whom the railways disbursed 65 per cent. of their revenues for operating expenses may be assumed to be benefited. The railway ownership is a small figure in the distribution of gains, and it is utterly fallacious then to measure the distribution of benefits by estimates upon the ownership of property!

#### The Distribution of Profits.

Even the net earnings of productive property do not go entirely to the benefit of



grows largely by the investment of and as soon as profits become reproducible the public begins to share in them. In fact, of the \$613,758,822 disbursed and dividends from the railway of the fiscal year, 1914, a considerable was turned back into railway investment for the improvement and enlargement of service. In fact, more new capital is put into the railways of the United States each year than is taken out of them. The country must have over a billion dollars a year of new money to keep them up to the growing needs of the country. Somebody must save or create this new capital every year and add it to the railways, or the public will lose its share.

But, in an economic sense, are distributed only by consumption and personal effort. The owner of a shoe factory who gets all of the profits to the enlargement of his business is deriving no economic benefits for himself. He is simply increasing the supply of shoes on the market, and the only prospect of that policy so long as it is to make shoes more plentiful and to contribute to the general well-being. The owner has the satisfaction of being a productive factor in the community, and

of having capital accumulated for a rainy day, but this satisfaction is not a burden to the community.

The stockholders of the Ford Motor Company are in litigation over what shall be done with the \$59,000,000 of profits made by that company last year, but whichever side has its way, the great bulk of that sum will be invested in productive industry of some kind, thus enlarging the demand for labor and increasing the supply of goods and services to the public. The benefit of those profits, one way or another, is bound to find its way back to the public.

To sum up: Large profits have the effect of rapidly increasing the stock of wealth of the second class, and this increases the supply of wealth of the first class, which in the nature of it must be widely distributed.

### Distribution Inevitable.

That distribution will increase as production increases is inevitable. While a proprietor will try for all he can get, he is bound to distribute his product at cost rather than not distribute it at all, and in all lines, prices are always tending to the cost level for the most poorly circumstanced producers. The producers have every incentive to strive for lower

## STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS NOVEMBER 24, 1916. (In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'nnpl's	Kas.City	Dallas	S.Fr'sco	Total
and certifi's Set- tled Cr. Balances	13,696	161,552	17,690	16,144	4,500	5,420	27,808	8,366	7,354	4,660	4,182	12,358	283,730
ment Fund.....	18,380	6,680	15,537	19,798	22,289	5,767	30,230	4,778	8,988	19,465	14,308	8,581	174,801
ption Fund.....	5	250	50	58	203	269	200	51	30	121	157	10	1,404
gold reserves..	32,081	168,482	33,277	36,000	26,992	11,456	58,238	13,195	16,372	24,246	18,647	20,949	459,935
er notes, Silver	183	13,977	210	1,024	65	296	527	1,167	200	48	224	53	17,974
nd Sub. coin....	32,264	182,459	33,487	37,024	27,057	11,752	58,765	14,362	16,572	24,294	18,871	21,002	477,909
Reserves.....													
ion fund—F. R.										370	100		470
es.....													
nted, Members	2,783	972	1,095	245	2,695	2,713	3,874	2,336	1,288	769	1,389	342	20,501
al paper.....	13,339	34,296	13,308	6,893	963	4,993	6,132	5,006	3,099	1,813	1,116	11,134	102,092
in open market	16,122	35,268	14,403	7,138	3,658	7,706	10,006	7,342	4,387	2,582	2,505	11,476	122,593(c)
ills on hand...	1,388	178	1,670	6,654	294	1,210	7,218	2,278	2,467	9,166	4,270	2,634	39,427
U. S. Bonds...	1,000	1,205	1,174	618	1,070	824	1,517	891	700	963	705	500	11,167
U. S. Treas. notes	1,392	8,404	1,670	3,637	61	409	2,457	633	1,208	308	77	1,910	22,166
Warrants.....													
Earning Assets	19,902	45,055	18,917	18,047	5,083	10,149	21,198	11,144	8,762	13,019	7,557	16,520	195,353
erve Notes, net	824	9,785	888	294			1,028		1,239			1,356	15,414
ther F. R. Banks													
esources.....	2,406	6,534		6,754	791	4,412	9,638	10,057	3,512	2,259	914	225	43,263(b)
Resources.....	61	225	90	478	61	251	160	319	41	203	545	217	2,651
RESOURCES.....	55,457	244,058	53,382	62,597	32,992	26,564	90,789	35,882	30,126	40,145	27,987	39,320	735,060
LIABILITIES													
nd in.....	5,007	11,909	5,226	5,993	3,341	2,480	6,683	2,794	2,609	3,051	2,695	3,923	55,711
dit Deposits.....	2,584	3,070	3,400	1,526	2,781	3,538	2,473	1,828	746	448	1,643	2,282	26,319
deposits, net.....	47,649	228,979	40,365	55,078	24,537	16,259	81,603	26,429	26,769	34,234	22,100	33,070	637,072
erve Notes-net					2,298	4,234		4,831		1,384	1,549		14,296(a)
erve Bank													
circulation.....			4,239							1,028			1,028
er F. R. Banks													
liabilities.....	217	100	152		35	53	30		2			45	634
LIABILITIES.....	55,457	244,058	53,382	62,597	32,992	26,564	90,789	35,882	30,126	40,145	27,987	39,320	735,060

1 Reserve notes in circulation 240,448.

2 deduction of items in transit between Federal Reserve Banks, 43,263; the Gold Reserve against Net deposit and note Liabilities 5% and the cash reserve is 75.3%. Cash Reserve against net deposit and note liabilities after setting aside 40% Gold Reserve net liabilities on Federal Reserve Notes in circulation 76.14.

3urities of bills discounted and loans: within 10 days, 17,465; to 30 days, 27,472; to 60 days, 50,751; other maturities, 26,905; Total: 102,693.



costs, larger production and widespread distribution, and every dollar of new capital is devoted to these ends. The result is seen in a constantly increasing supply of commodities per head of population, and the only way these commodities can possibly be distributed is by such a continual readjustment of wages and prices as will enable the people to buy them. The people, with the help of capital in the form of all the equipment of industry, produce the goods, and the goods are distributed back to the people; no other disposition of them is possible. Nothing less than the whole body of the people can consume the great and daily increasing mass of products. If these products were not taken off the market and consumed, industry would quickly become unprofitable, and come to a standstill.

There is naturally no small degree of confusion and maladjustment in a society where everybody must find his own place in the industrial organizations, with the right to live where he pleases and work at anything he chooses to try, to say nothing of an indisposition to work at all, and of all the other shortcomings of human nature; but the fact that production is always increasing faster than population and that consumption keeps up close to it, shows that a very good degree of reciprocal distribution exists.

## Federal Reserve Board on Foreign Treasury Bills.

The Federal Reserve Board on November 27 issued the following statement relating to foreign credits:

In view of contradictory reports which have appeared in the press regarding its attitude toward the purchasing by banks in this country of Treasury bills of foreign governments, the Board deems it a duty to define its position clearly. In making this statement the Board desires to disclaim any intention of discussing the finances or of reflecting upon the financial stability of any nation, but wishes it understood that it seeks to deal only with general principles which affect all alike.

The Board does not share the view frequently expressed of late, that further importations of large amounts of gold must of necessity prove a source of danger or disturbance to this country. That danger, the Board believes, will arise only in case the inflowing gold should remain uncontrolled and be permitted to become the basis of undesirable loan expansions and of inflation. There are means, however, of controlling accessions of gold by proper and voluntary co-operation of the banks or if need be by legislative enactment. An important step in this direction would be the anticipation of the final transfer of reserves contemplated by the Federal Reserve Act to become effective on November 16, 1917. This date could be advanced to February or March, 1918. Member banks would then be placed on the permanent basis of their reserve requirements and fictitious reserves would then disappear and the banks have a clearer conception of actual reserve and financial conditions. It will then appear that while a large increase in the country's gold holdings has taken place, the ex-

pansion of loans and deposits has been such that not remain any excess of reserves, apart from the reserve loaning power of the Federal Reserve Bank.

In these circumstances the Board feels that men should pursue a policy of keeping themselves liquid—loaning down to the legal limit, but of maintaining reserves—not with reserve agents, where their balances loaned out and constitute no actual reserve, but in vaults or preferably with their Federal Reserve Bank. The Board believes that at this time banks should proceed with much caution in locking up their funds in long term investments or in investments, which are short term in form but which, either by contract or through force of circumstances, may in the aggregate have to be renewed until maturities return. The Board does not undertake to formulate abilities or to specify circumstances which may be important factors in determining future conditions. Its responsibility lies primarily with the banking community. If, however, our banking institutions have to intervene in foreign securities are offered faster than they can be absorbed by investors—that is their depositors—an element is introduced into the situation which, if not kept under control, would tend toward instability, and ultimate injury to the economic development of this country. The natural power of the investment market supplies an important factor of the volume of our sales to foreign countries of the goods that they send us. The form which recent borrowing is taking, apart from reference to its intrinsic merits, makes it appear particularly attractive for banking investment. The Board, as a matter of fact, understands that it is expected to place it primarily with the fact, it would appear so attractive that unless a better national point of view be adopted, individual banks easily be tempted to invest in it to such an extent that the banking resources of this country be employed in the might run into many hundreds of millions of dollars. If the loans may be short in form and severally, neglected at maturity, the object of the borrower must tempt to renew them collectively, with the result that the aggregate amount placed here will remain until such time as may be advantageously converted into a long term investment. It would, therefore, seem as a consequence that liquidities of our banks, which should be available for short credit facilities to our merchants, manufacturers and farmers, be exposed to the danger of being absorbed for other purposes to a disproportionate degree, especially in view of the many of our banks and trust companies are already burdened with substantial amounts of foreign obligations, and of some of which they are under agreement to renew. The Board, therefore, its duty to caution the member banks to not regard it in the interest of the country at this time they invest in foreign Treasury bills of this character.

The Board does not consider that it is called upon to advise private investors, but as the United States is feeling the banker of foreign countries in all parts of the world, it takes occasion to suggest that the investor should rely on accurate and authoritative data—particularly in the case of loans—in order that he may judge the future intelligently in the light of present conditions and in conjunction with the normal developments of the past.

The United States has now attained a position of pre-eminence of international financial power, which, in the nature of events, it could not have reached for a generation. It must be careful not to impair this position of strength by premature expenditure. While it is true that a slowing down in the rate of credit extension may mean some curtailment of the normally stimulated export trade to certain countries, it is not to be feared that our business will fall off precipitately because there are still hundreds of millions of our foreign securities held abroad which our investors are glad to take over, and moreover, trade can be stimulated in other directions.

In the opinion of the Board, it is the duty of our banks to remain liquid in order that they may be able to respond to our home requirements, the nature and extent of which none can foresee, and in order that our present financial strength may be maintained when, at the close of the war we shall wish to do our full share in the international reconstruction and development which lie ahead of us, and when a clearer understanding of the conditions as they will then exist, will enable this country to safely and intelligently to do its proper part in the rehabilitation of the world.

THE NATIONAL CITY BANK OF NEW YORK



## **"City Bank Service."**

---

### **THE NATIONAL CITY COMPANY**

through its correspondent offices in over twenty cities offers to Banks, Institutions and to Individual Investors an exceptional investment service.

Our lists comprise securities which have been carefully analyzed as to their adaption to the requirements of Banks, Business Houses, Institutions and Individuals.

Specially prepared lists of securities suitable for the particular needs of clients will be submitted upon request.

Send for special list B-54.

In writing please indicate the general character of securities you desire.

---

### **The National City Company**

National City Bank Building, New York

#### **CORRESPONDENT OFFICES**

PHILADELPHIA, PA.  
1421 Chestnut St.

PITTSBURGH, PA.  
Farmers Bank Bldg.

WILKESBARRE, PA.  
Miners Bank Bldg.

KANSAS CITY, MO.  
Republic Bldg.

BOSTON, MASS.  
55 Congress St.

ALBANY, N. Y.  
Douw Bldg.

BALTIMORE, MD.  
Munsey Bldg.

BUFFALO, N. Y.  
Marine Bank Bldg.

CHICAGO, ILL.  
137 So. La Salle St.

LONDON, ENG.  
3 Lombard St.

CLEVELAND, OHIO  
Guardian Bldg.

SAN FRANCISCO, CAL.  
424 California St.

DETROIT, MICH.  
Dime Bank Bldg.

WASHINGTON, D. C.  
741-15th St. N. W.

ST. LOUIS, MO.  
Bank of Commerce Bldg.











HG  
1  
F58  
1916

First National City Bank  
of New York  
Monthly economic letter

PLEASE DO NOT REMOVE  
CARDS OR SLIPS FROM THIS POCKET

---

UNIVERSITY OF TORONTO LIBRARY

---



